

Monday, June 18, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The DXY index essentially recovered two weeks of declines post-ECB, breaking through the end-May high to reach 95.13, before retreating below the 95.00 handle.
- We noted last week that a return of USD strength may be predicated more on disappointment from the European Central Bank (ECB), rather than just a hike from the Fed. Indeed, the ECB delivered a dovish surprise, guiding an unchanged interest rate path “at least through summer of 2019”. This probably took the market by surprise since given its unambiguous nature.
- Heading into “Super Thursday”, market expectations were for a static Fed and hawkish ECB. Instead, the Fed was regarded as a touch hawkish by the market, while the ECB was dovish in its interest rate guidance. This necessitates the knee-jerk re-pricing of the EUR post-ECB.
- **At this juncture, not all signs point to further broad USD strength.** For one, softer long-end UST yields into the end of the week counts against the USD. Nominal yield (still below 3.00% on the 10y) and yield differential arguments (no positive correlation in the near term) do not lend support to the USD at this point. What should help is that more focus is now placed on the relative economic outperformance in the US compared to Europe and the rest of the world.
- **Overall, we expect some consolidation after the spike, although the bias is for a firmer USD over the near term.**
- In terms of **CFTC** positioning, note that the net implied USD longs held by leveraged accounts were essentially unchanged. The leveraged accounts built up on EUR shorts ahead of the Fed and ECB meetings, and also on JPY longs perhaps as a nod to upcoming risk events. Asset managers, however, took the opposite stance, adding to net implied USD shorts, and perhaps came out of the central bank meetings somewhat bruised.
- In terms of USD positioning, **the key question now is whether the Fed and ECB meetings may precipitate a shift in long term directional views from the asset managers, and cause them to shift into net implied USD longs.** Note that despite recent re-positioning, the asset managers continue to hold significant net implied USD shorts.
- Note that the central bank calendar is heavy this week, headlined by the ECB’s Sintra Conference. In particular, watch for Draghi (Mon, Tue, Wed), Powell,

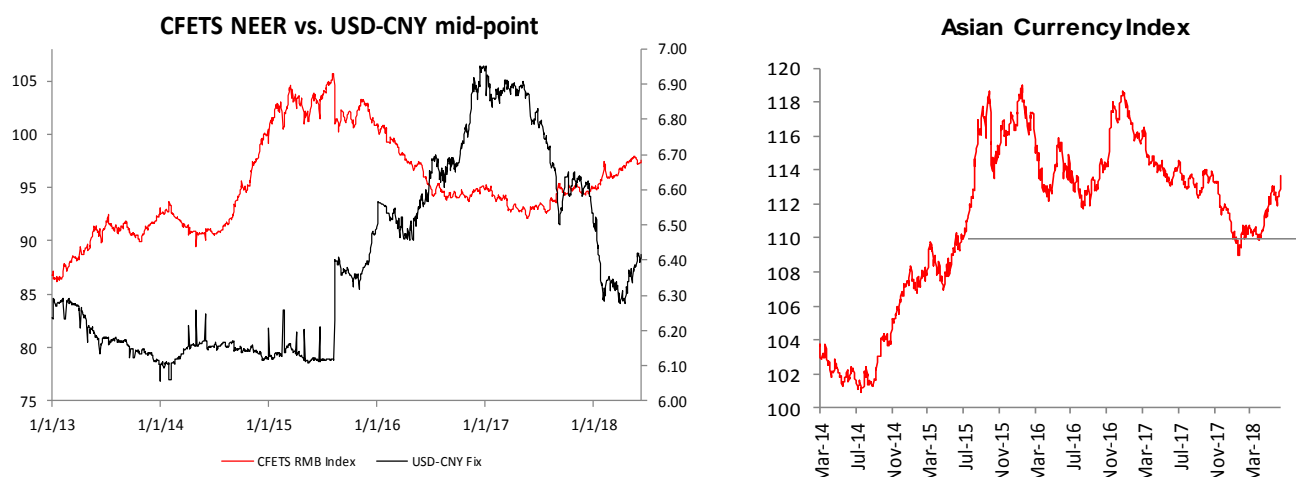
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Kuroda and Lowe (all Wed) in Sintra, amid comments by various other ECB council members throughout the week. On the Fed front, watch for Bostic (1700 GMT) today. Minutes for RBA's June meeting is on tap for Tuesday. **Bank of England's** rate decision is scheduled for Thursday (1100 GMT), before Carney's speech later in the day.

Asian FX

- Sino-US trade issues will dominate headlines and sentiments this week, after Trump announced the list of Chinese goods to be subjected to tariffs on Friday. The tariffs are expected to come into effect from 6 July onwards, if no deal is struck before then. We also expect further restrictions on Chinese investment in the upcoming weeks. Note that China has also produced a list of imports it will impose tit-for-tat tariffs on.
- Expect risk sentiments to be edgy this week, especially if trade rhetoric continues to escalate. We think risk sentiments will be more sensitive to Sino-US trade issues, compared to other risk events in the past week. Indeed, our **FX Sentiment Index (FXSI)** has arrested its slide, and is moving higher towards the Risk-off zone, while staying within the **Risk Neutral** territory.
- **The broad USD move on late last week has caused USD-Asia to break through a number of top-side resistance levels, most notably in the USD-KRW and the USD-THB. Moreover, with the broad USD likely to be biased higher still, and with precious little to distract Trump from Sino-US trade issues, expect the Asian Currency Index (ACI) to see upside pressure this week.**
- In terms of **flows environment in Asia**, South Korea remains the bright spot for now, with bond inflows continuing to be strong. However, it remains to be seen if this momentum can continue, given that the possible cancellation of US- Korea military drills may negatively affect sentiments in South Korea. Inflow momentum in Taiwan and Thailand has turned, with equity outflows sighted in Taiwan once again.
- **SGD NEER:** The SGD NEER is softer this morning, hovering at +0.34% above its perceived parity (1.3558), with the NEER-implied USD-SGD thresholds higher amidst broad USD strength. Expect an intra-day range between +0.20% (1.3532) and +0.50% (1.3491). Downside support should enter around the 1.3380 to 1.3400 region.
- **CFETS RMB Index:** China holiday.



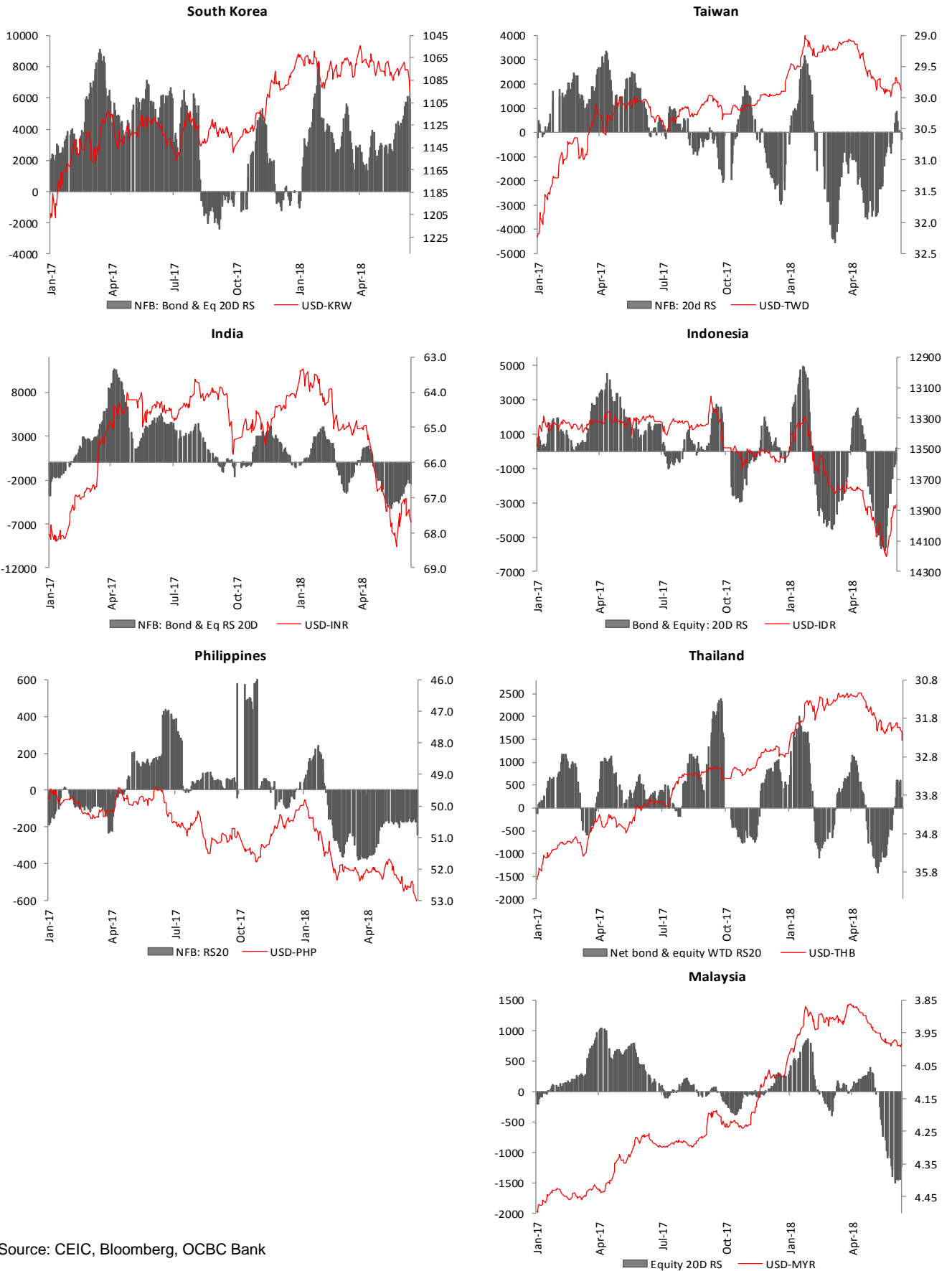
Source: OCBC Bank, Bloomberg

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; minutes of the 24 May BOK meeting reveal some discussion towards reducing policy accommodation. |
| 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 |

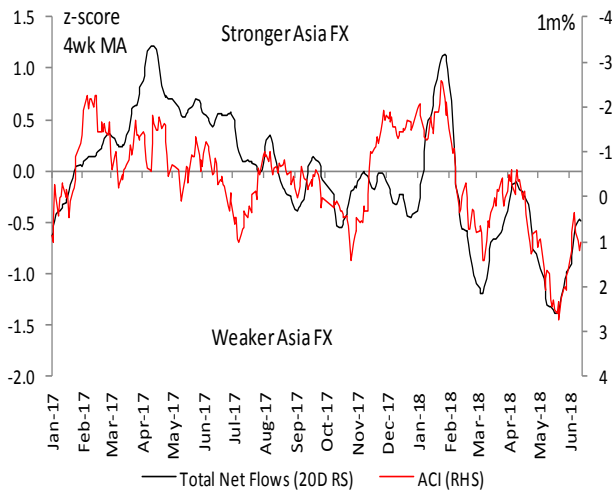
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



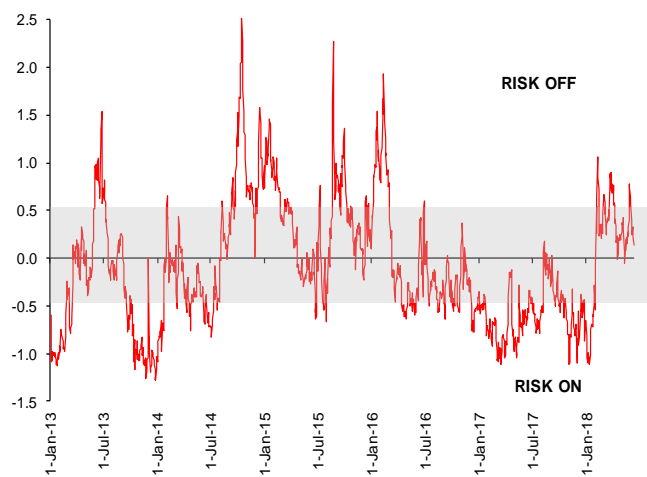
Source: CEIC, Bloomberg, OCBC Bank

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 | ITRXX | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | -0.547 | 0.576 | -0.167 | -0.528 | -0.232 | -0.084 | -0.296 | 0.338 | 0.194 | 0.746 | -0.972 |
| SGD | 0.826 | -0.120 | 0.295 | -0.290 | -0.547 | 0.110 | 0.216 | 0.080 | 0.261 | -0.217 | 0.480 | -0.746 |
| CNH | 0.746 | -0.797 | 0.920 | 0.221 | -0.267 | -0.682 | -0.249 | -0.756 | 0.204 | 0.666 | 1.000 | -0.726 |
| CAD | 0.694 | -0.498 | 0.660 | 0.470 | 0.056 | -0.811 | 0.084 | -0.723 | -0.119 | 0.474 | 0.862 | -0.601 |
| CNY | 0.576 | -0.747 | 1.000 | 0.154 | -0.365 | -0.621 | -0.374 | -0.682 | 0.251 | 0.621 | 0.920 | -0.571 |
| CHF | 0.553 | 0.357 | -0.134 | -0.278 | -0.418 | 0.376 | 0.481 | 0.463 | 0.049 | -0.613 | 0.019 | -0.454 |
| TWD | 0.547 | -0.168 | 0.186 | -0.545 | -0.827 | 0.477 | -0.113 | 0.506 | 0.573 | -0.125 | 0.107 | -0.543 |
| KRW | 0.462 | 0.132 | 0.305 | 0.099 | -0.418 | -0.010 | 0.423 | 0.235 | -0.074 | -0.234 | 0.209 | -0.320 |
| PHP | 0.297 | -0.242 | 0.326 | 0.509 | -0.039 | -0.452 | 0.024 | -0.350 | -0.085 | 0.373 | 0.488 | -0.239 |
| THB | 0.289 | 0.280 | 0.249 | 0.156 | -0.260 | -0.029 | 0.571 | 0.277 | -0.059 | -0.289 | 0.138 | -0.130 |
| INR | 0.128 | 0.383 | -0.351 | -0.336 | -0.299 | 0.628 | 0.281 | 0.792 | 0.106 | -0.536 | -0.336 | -0.083 |
| MYR | 0.107 | -0.359 | 0.441 | 0.468 | -0.133 | -0.201 | -0.206 | -0.212 | 0.030 | 0.606 | 0.449 | -0.114 |
| IDR | 0.073 | 0.653 | -0.646 | -0.560 | -0.328 | 0.914 | 0.452 | 0.942 | 0.097 | -0.743 | -0.709 | 0.001 |
| JPY | -0.084 | 0.802 | -0.374 | 0.429 | 0.403 | -0.042 | 1.000 | 0.226 | -0.587 | -0.639 | -0.249 | 0.289 |
| NZD | -0.451 | -0.138 | 0.248 | 0.657 | 0.461 | -0.641 | -0.087 | -0.616 | -0.381 | 0.466 | 0.113 | 0.451 |
| USGG10 | -0.547 | 1.000 | -0.747 | 0.183 | 0.396 | 0.365 | 0.802 | 0.594 | -0.588 | -0.832 | -0.797 | 0.652 |
| AUD | -0.778 | 0.155 | -0.318 | 0.163 | 0.508 | -0.011 | -0.232 | -0.038 | -0.258 | 0.085 | -0.518 | 0.696 |
| GBP | -0.877 | 0.758 | -0.682 | 0.150 | 0.604 | 0.245 | 0.393 | 0.401 | -0.452 | -0.473 | -0.794 | 0.904 |
| EUR | -0.972 | 0.652 | -0.571 | 0.285 | 0.602 | 0.152 | 0.289 | 0.280 | -0.451 | -0.276 | -0.726 | 1.000 |

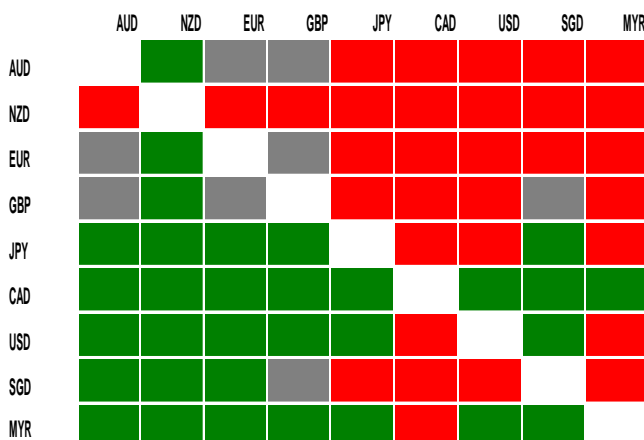
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1510 | 1.1541 | 1.1592 | 1.1600 | 1.1847 |
| GBP-USD | 1.3205 | 1.3230 | 1.3271 | 1.3300 | 1.3455 |
| AUD-USD | 0.7400 | 0.7412 | 0.7444 | 0.7448 | 0.7500 |
| NZD-USD | 0.6888 | 0.6900 | 0.6934 | 0.7000 | 0.7049 |
| USD-CAD | 1.3100 | 1.3163 | 1.3184 | 1.3200 | 1.3208 |
| USD-JPY | 110.00 | 110.25 | 110.40 | 111.00 | 111.05 |
| USD-SGD | 1.3500 | 1.3502 | 1.3512 | 1.3535 | 1.3600 |
| EUR-SGD | 1.5543 | 1.5600 | 1.5663 | 1.5700 | 1.5792 |
| JPY-SGD | 1.2194 | 1.2200 | 1.2239 | 1.2300 | 1.2353 |
| GBP-SGD | 1.7774 | 1.7900 | 1.7931 | 1.7974 | 1.8000 |
| AUD-SGD | 1.0000 | 1.0048 | 1.0059 | 1.0100 | 1.0105 |
| Gold | 1200.00 | 1274.00 | 1278.30 | 1280.37 | 1300.00 |
| Silver | 16.17 | 16.50 | 16.52 | 16.58 | 16.60 |
| Crude | 63.59 | 63.80 | 63.82 | 63.90 | 68.09 |

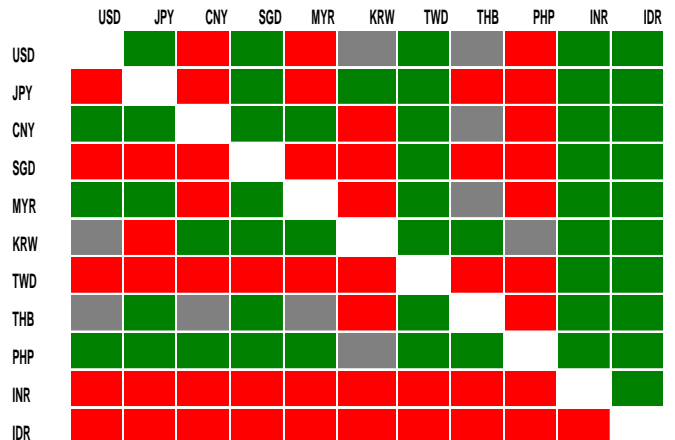
Source: OCBC Bank

G10 FX Heat Map



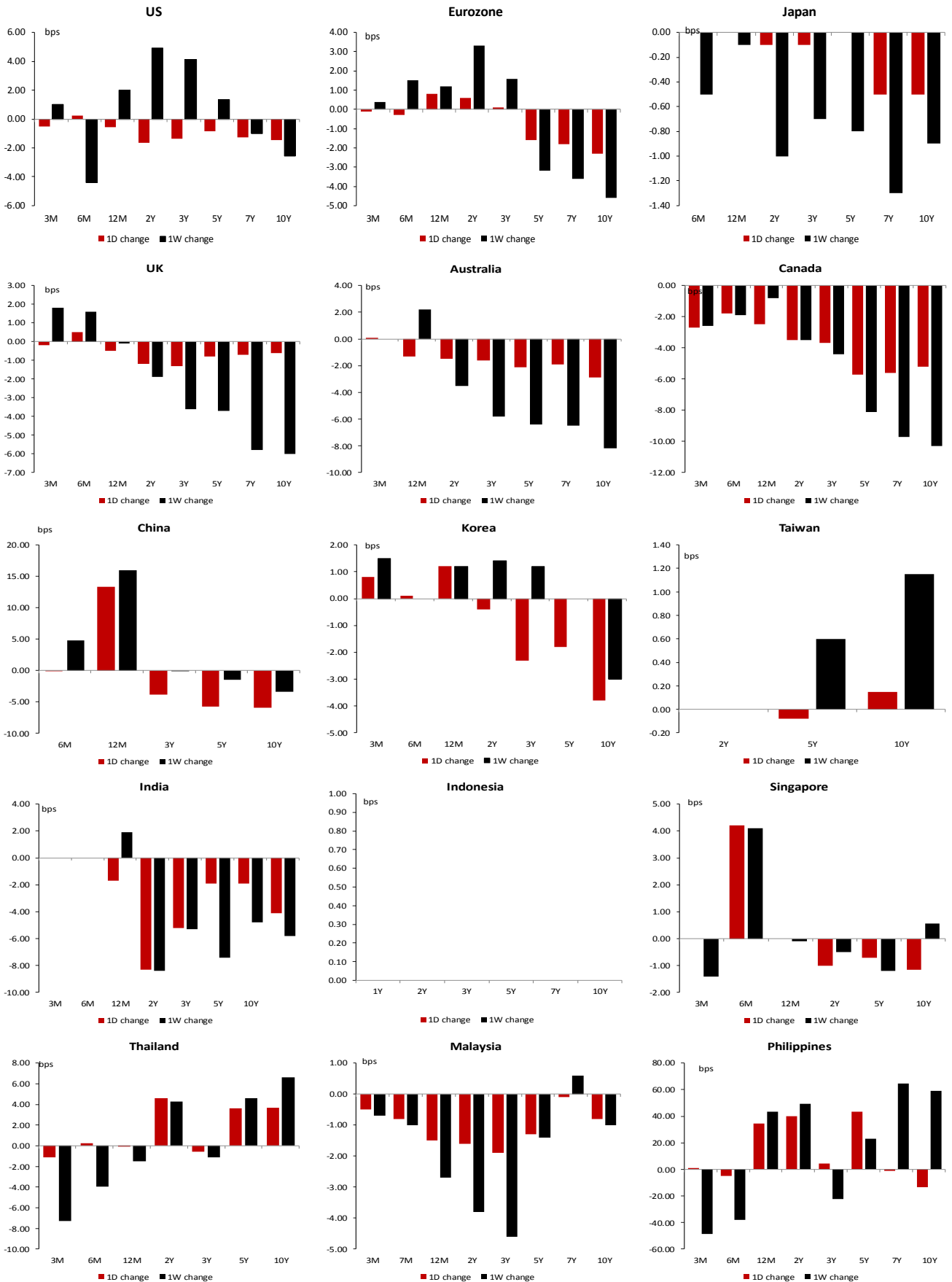
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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