

Friday, May 18, 2018

FX Themes/Strategy/Trading Ideas

- With the 10y UST yield lifting above 3.100% to a high of 3.122%, the USD managed to end flat to slightly firmer across G10 space on Thursday with the DXY holding above 93.40.
- In the near term, in addition to broad dollar dynamics, the EUR may continue to creak slightly under the weight of Italian political headline risks. Elsewhere, GBP-USD also relinquished early session strength on Thursday after reports that Britain would attempt to remain within the US customs union were refuted.
- For today, look to the Fed's Mester (0700 GMT), Kaplan (1315 GMT), and Brainard (1315 GMT) with the rest of the global calendar fairly light. However, given the recent selloff in USTs and the DXY grind higher, expect investors to remain particularly sensitive to Fed-speak at this juncture. On other fronts, Canadian March retail sales and April CPI readings may permit the CAD to continue to partially resist firmer broad dollar cues if the headline numbers are warmer than expected.
- EM equities turned softer on Thursday and the **FXSI (FX Sentiment Index)** ticked a touch higher within Risk-Neutral territory on Thursday. Thus far, sentiment towards broad EM markets and Asia remain sanguine (for now), despite the sustained climb in US yields but we think this bears watching.
- On the ground, the question remains whether the DXY will continue to reach for 94.00 (prefer to utilize the EUR and the JPY in this scenario); whether the 10y UST yield can subsist within 3.10-3.20% or relapse to 3.00%.
- However, with medium term and structural arguments creeping in of late (perceived Fed wariness towards curve inversion notwithstanding), hitherto undue curve (bull) flattening on the US front may increasingly be a thing of the past as we head deeper into the summer. In this scenario, the greenback may therefore continue to attempt to garner traction from the rate differential front.

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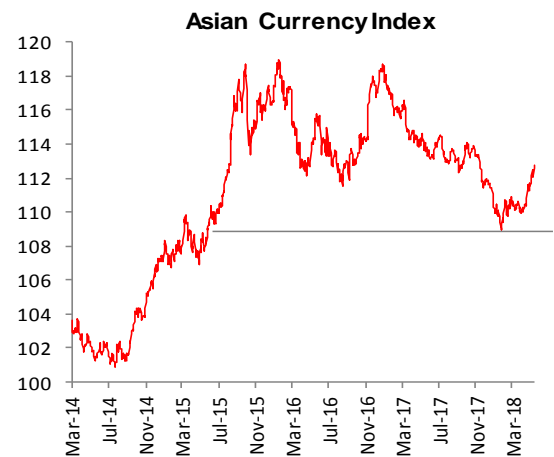
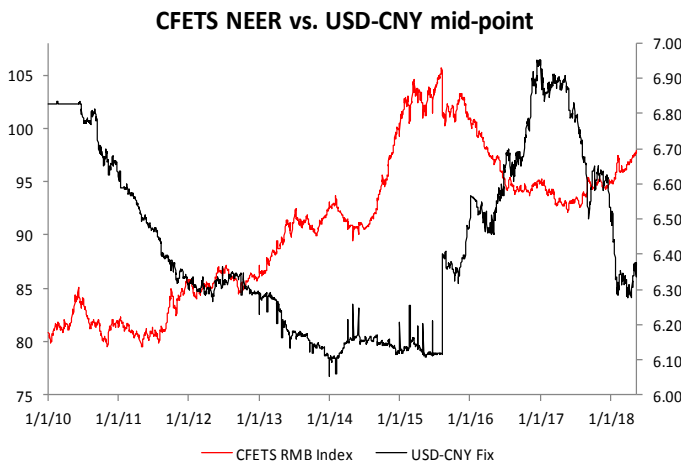
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Asian FX

- Pending further headlines from US-Sino trade talks, USD-Asia may remain supported on dips with the **ACI (Asian Currency Index)** still seen propped up by the broad dollar.
- On the net portfolio flow front in Asia, South Korea is experiencing a slight rebound in net inflows, largely on the back of net bond inflows. Elsewhere, Taiwan is still net outflow pressure. In the south, India and Indonesia remain in the shadows of significant outflow pressures, primarily on the bond front. Net outflows for Thailand are compressing as net bond outflows compress.
- Motivated to act “pre-emptively” to stabilize financial market stability, Bank Indonesia hiked its benchmark 7-day reverse repo rate by 25bps to 4.50% as widely expected on Thursday. Note that outgoing governor Agus Martowardojo also warned of further hikes if necessary.
- **SGD NEER:** The SGD NEER is a touch softer on the day at around +0.38% above its perceived parity (3476) with NEER-implied USD-SGD thresholds higher on the day. Continue to look to a +0.20% (1.3449) to +0.60% (1.3396) range intra-day. Meanwhile, the 200-day MA (1.3376) is also seen cushioning, with risks likely skewed towards 1.3470 instead.
- **CFETS RMB Index:** The USD-CNY mid-point this morning rose (as expected) to 6.3763 from 6.3679 on Thursday. This took the CFETS RMB Index higher to 97.88 from 97.78.



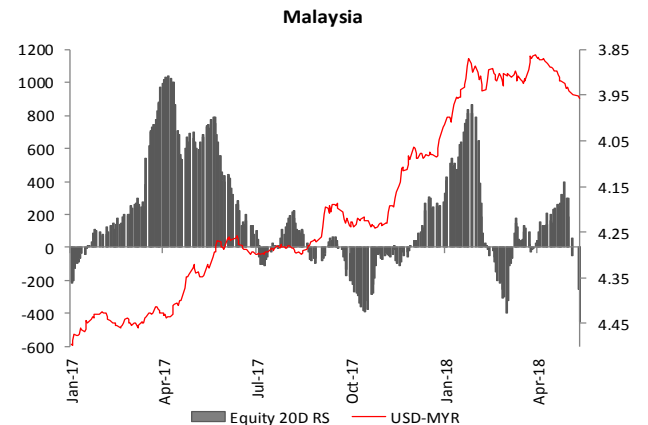
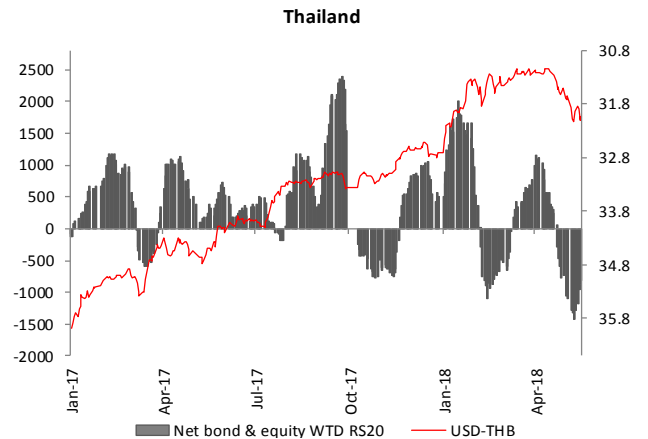
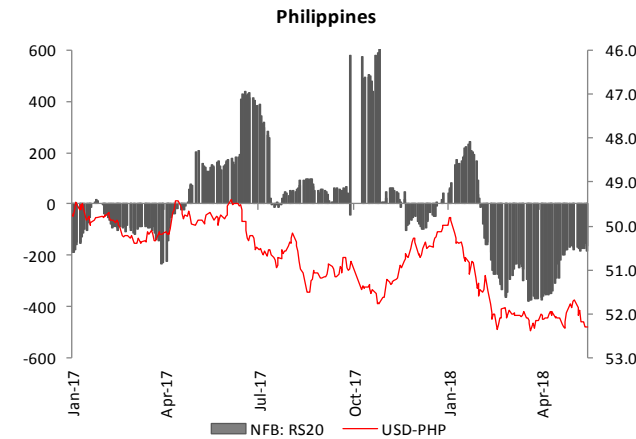
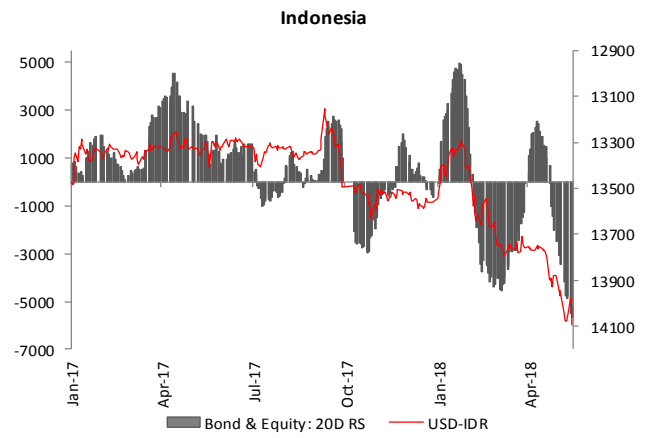
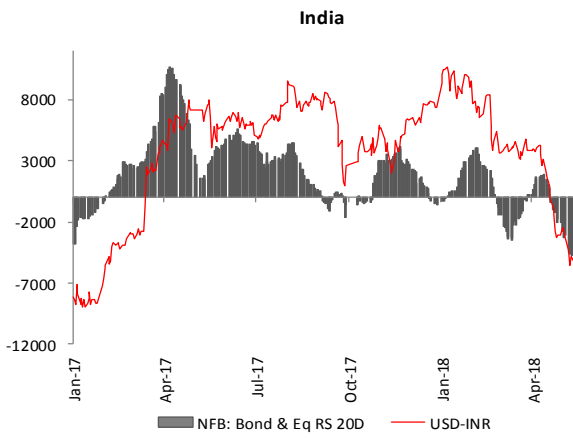
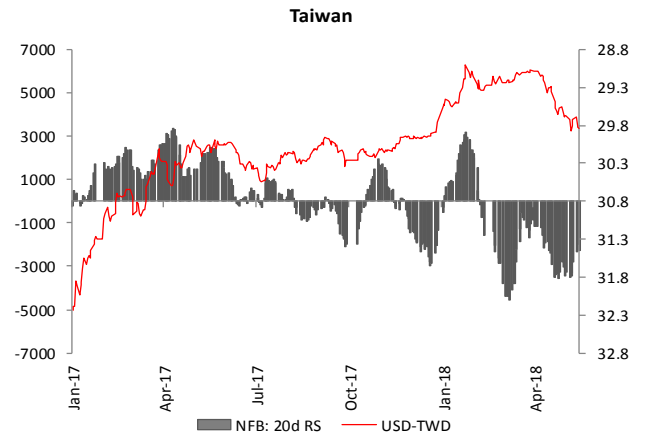
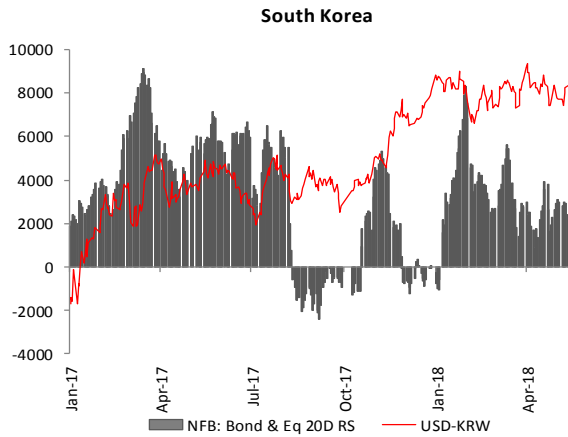
Source: OCBC Bank, Bloomberg

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 hikes as expected to 4.50%
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.

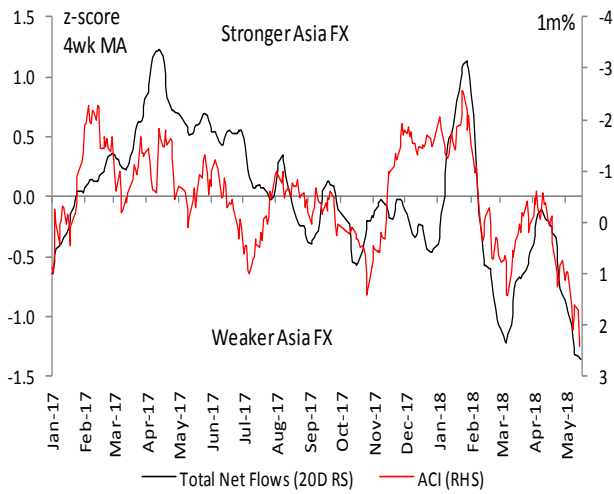
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



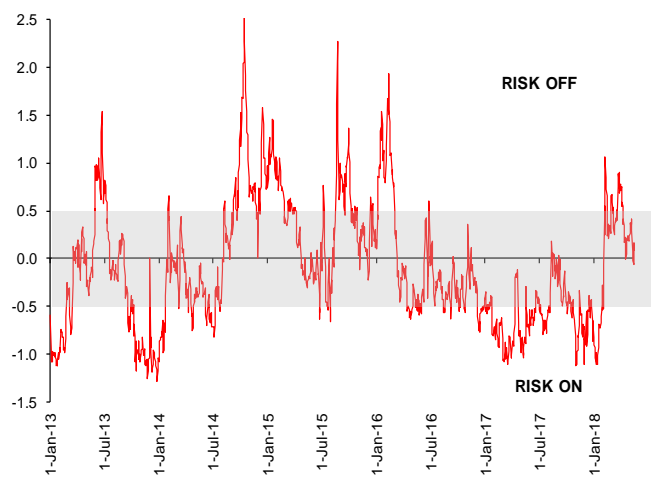
Source: CEIC, Bloomberg, OCBC Bank

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

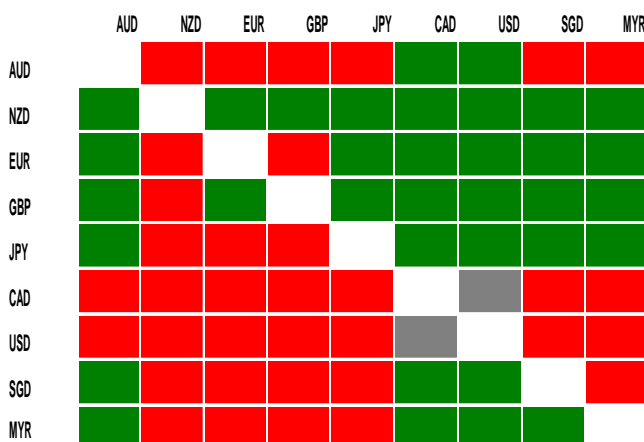
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1764	1.1800	1.1807	1.1900	1.2019
GBP-USD	1.3451	1.3500	1.3518	1.3557	1.3600
AUD-USD	0.7441	0.7500	0.7516	0.7600	0.7606
NZD-USD	0.6835	0.6851	0.6889	0.6900	0.7139
USD-CAD	1.2761	1.2800	1.2822	1.2824	1.2900
USD-JPY	110.18	110.78	110.95	110.99	111.00
USD-SGD	1.3368	1.3400	1.3424	1.3478	1.3490
EUR-SGD	1.5799	1.5800	1.5850	1.5900	1.6063
JPY-SGD	1.2077	1.2089	1.2099	1.2100	1.2135
GBP-SGD	1.8100	1.8119	1.8147	1.8200	1.8369
AUD-SGD	0.9974	1.0000	1.0089	1.0097	1.0100
Gold	1284.00	1286.76	1288.00	1300.00	1311.98
Silver	16.11	16.30	16.38	16.40	16.51
Crude	66.58	71.60	71.65	71.70	72.30

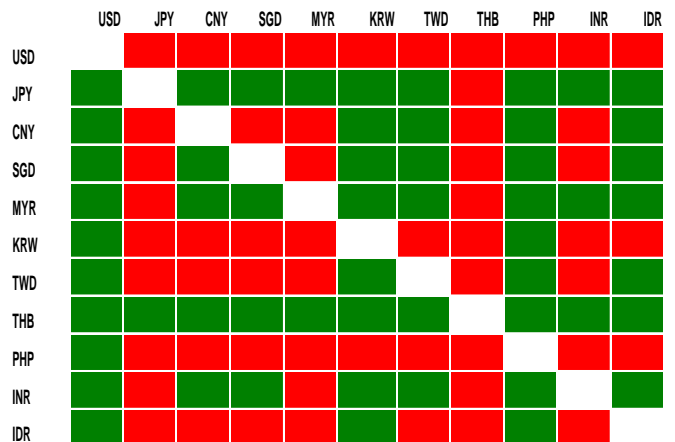
Source: OCBC Bank

G10 FX Heat Map



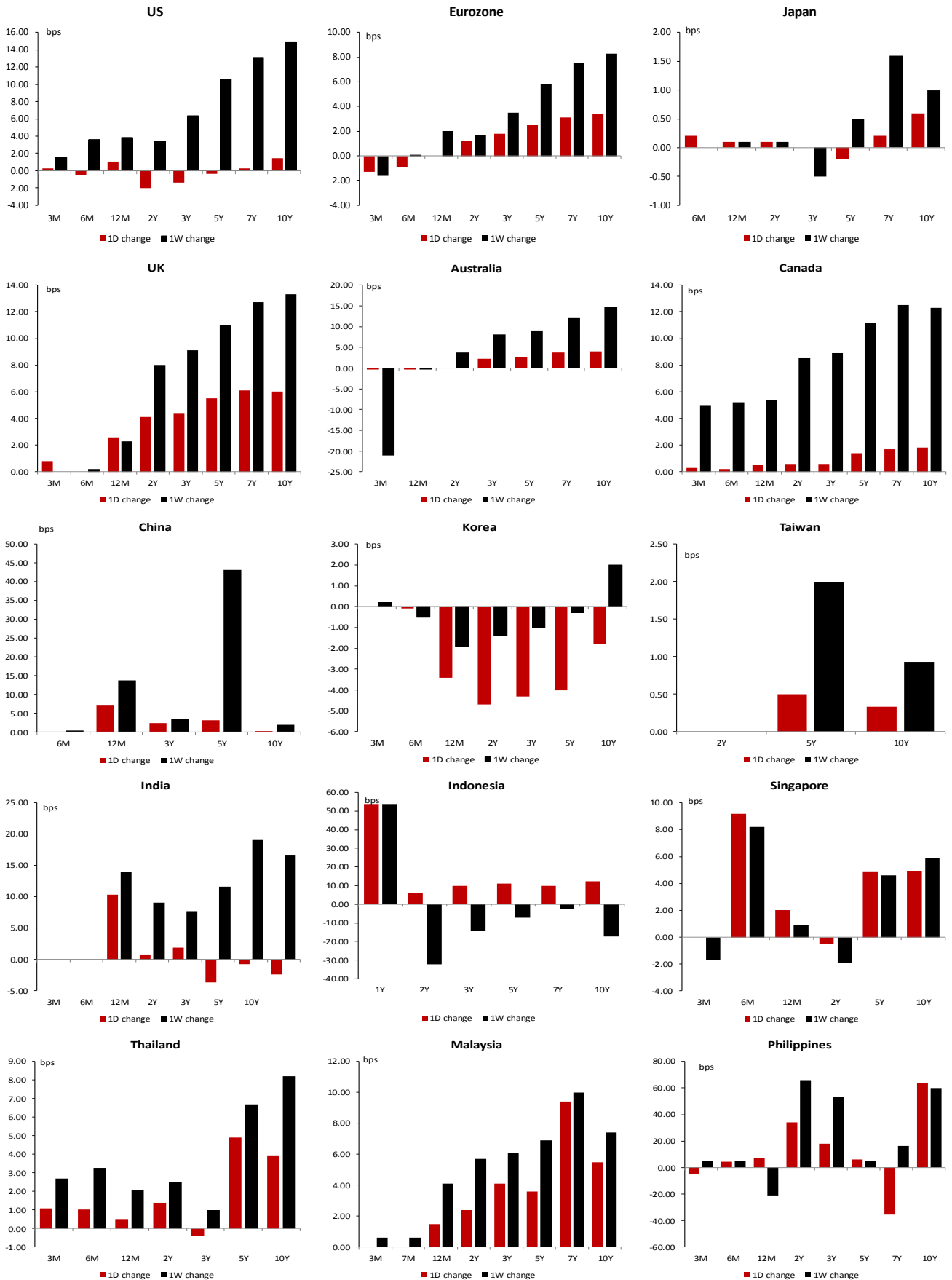
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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