

Thursday, July 19, 2018

FX Themes/Strategy/Trading Ideas

- The DXY index retained a biddish tone throughout the Asian session, hitting 94.40, before easing in late London and NY sessions to close essentially unchanged. USD gains against the GBP and EUR were offset by losses against the antipodeans.
- Powell's second testimony to the House saw him adopt a somewhat less hawkish tone, commenting that the US economy is "not quite there" in terms of full employment and that he is "slight more worried about lower inflation".
- Summing up across the two days of Powell's testimony, the sense we got is that the Fed is worried about the negative impacts of trade tariffs, but did not see them as justifying a material shift in the rate hike path as yet. For that to happen, we would need to see further pass-through from the tariffs to investments and the real economy. Regarding the yield curve, we got the impression that the Fed does not yet believe that the yield curve would eventually invert. If and when this becomes the base case within the FOMC, we expect them to turn more cautious in their policy stance and rhetoric, especially since they will have a direct impact on short-end yields.
- **With the Powell testimonies not providing new USD drivers, we retain the view that the DXY index will remain within the established range.** Note that G7 FX vols remain contained, perhaps not pointing towards an impending range break in spot levels. **Therefore, with the broad USD near the top of the range, we may expect the USD to ease over the coming sessions until we see a definitive top-side break.**
- On the risk appetite front, we note that sentiments have further improved. Our **FX Sentiment Index (FXSI)** is making a move towards the Risk-On zone, while still staying within the Risk-Neutral territory. **Given the improving risk sentiments, we think there may be scope to be constructive on the AUD in the coming sessions.**
- The G7 data and central bank calendar looks somewhat light today. Note however, overnight CPI data in Eurozone was mixed, with the headline measure in-line with expectations and the core measure missing expectations. UK inflation prints also missed, causing market implied odds for a hike in the Aug MPC to ease.

Treasury Research &
Strategy

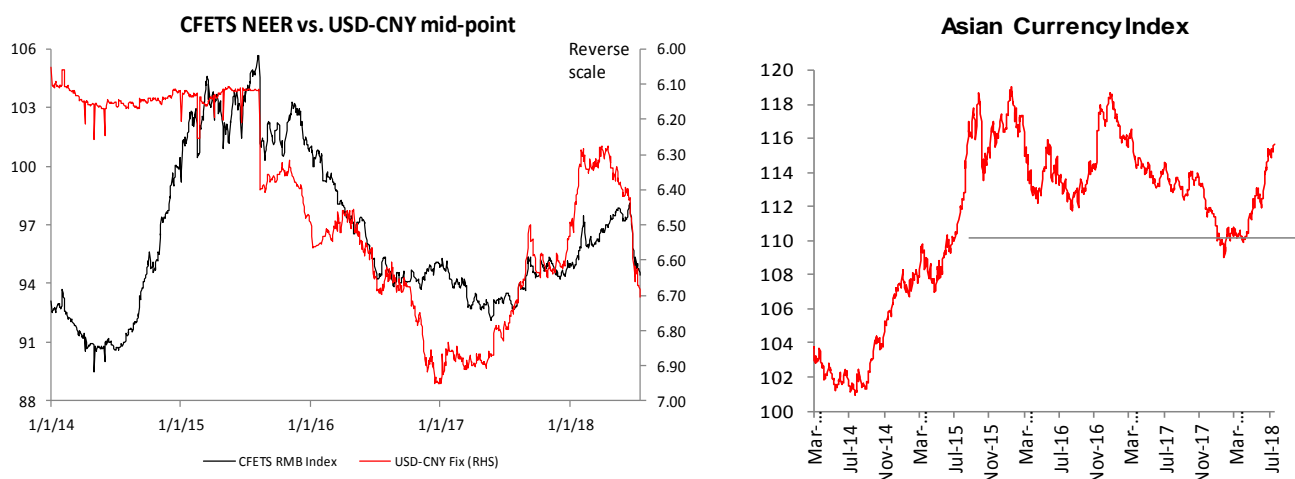
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- The RMB complex looks to be under renewed pressure again, with the latest headlines suggesting that the PBoC is encouraging the banks to loosen the screws on lending and increase investment in corporate bonds. This is reminiscent of the quantitative easing undertaken by the Fed and ECB earlier, albeit a “stealthier” version using banks as an intermediary.
- We note that this monetary easing is putting negative pressure on the RMB complex. The USD-CNY fixing is above the 6.7000 handle for the first time since Aug 2017. **With the USD-CNY hitting year-to-date highs above 6.7300, and the CFETS RMB Index at the 94.00 handle, we await signs of possible intervention by the PBoC. If this is not forthcoming, we may expect further depreciation pressures on the RMB complex.**
- **Expect the Asian currencies to weaken intra-day, following the lead in the RMB complex.** In this context, expect the KRW and TWD to be more directly affected, with both testing year-to-date lows. Expect the Asian Currency Index (ACI) to push higher intra-day.
- In terms of **Asian portfolio flows**, the latest reading showed a significant bond outflow from South Korea. This continued to put pressure on the inflow momentum for South Korea on a rolling 20D basis. Meanwhile, equity outflow momentum from Taiwan compressed further. The pace of outflows from Taiwan have eased to around half of the fastest pace seen over the past month. Elsewhere in South Asia, outflow momentum continued to compress in India and Thailand. We still lack visibility on bond flows in Indonesia, with the latest data-print more than a week old. Overall, on aggregate terms, we may have seen a bottom in terms of portfolio outflows across Asia.
- **SGD NEER:** The SGD NEER is firmer this morning, standing at around +0.80% above its perceived parity level (1.3779). The NEER-implied USD-SGD thresholds were firmer on the back of a rising USD overnight. Intra-day, expect the pair to stay contained within the +0.60% (1.3697) and +1.00% (1.3643) thresholds.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations at 6.7066 compared to 6.6914 on Wednesday. The CFETS RMB Index eased to 94.45, compared to 94.58 previously.



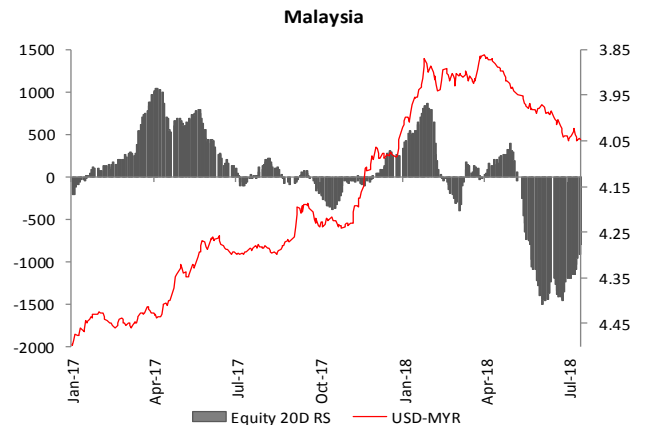
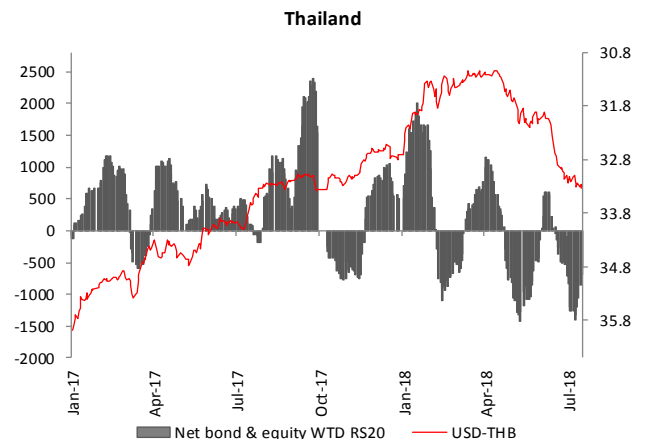
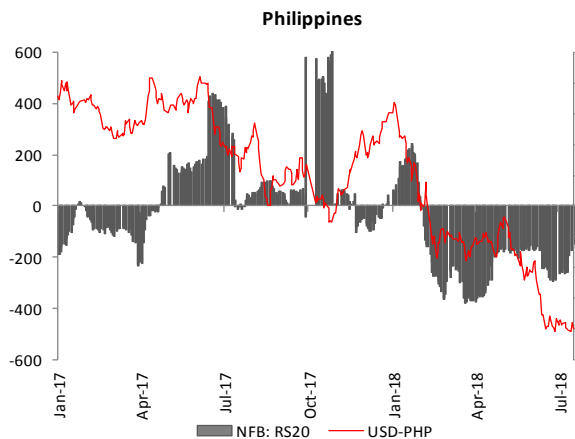
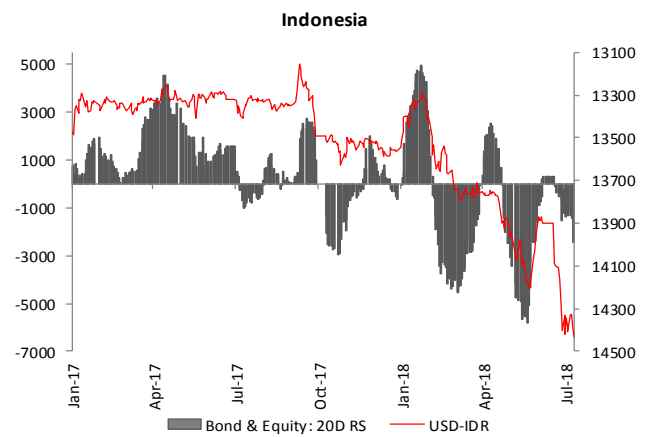
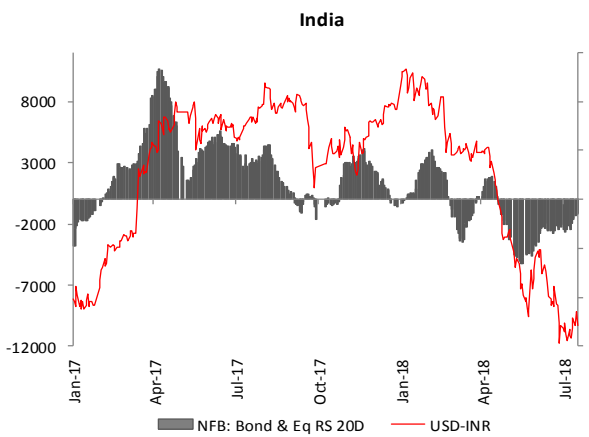
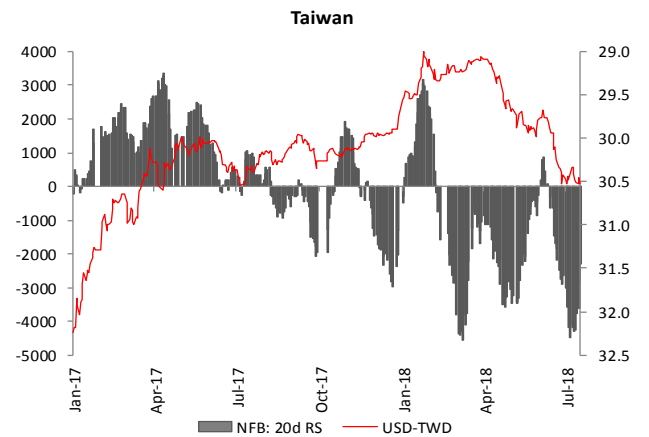
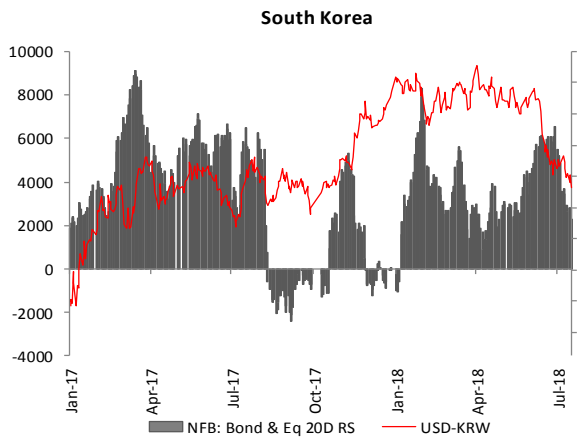
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Renewed pressure on the RMB complex as the PBoC undertakes further easing. The USD-CNH and USD-CNY testing recent highs again; 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 BOK policy meeting, although the presence of one dissenter in favour of rate hikes may signal a shift in that direction
USD-TWD	↔/↑	Equity outflows compressing, with the pace decreasing to half the highest level seen over the past month; pair led by the RMB complex
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

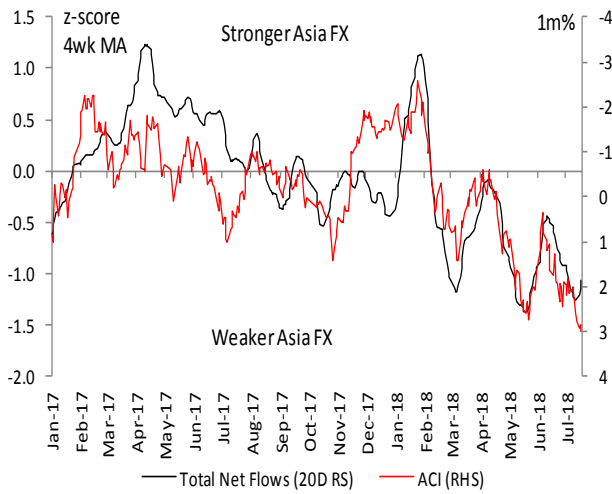
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



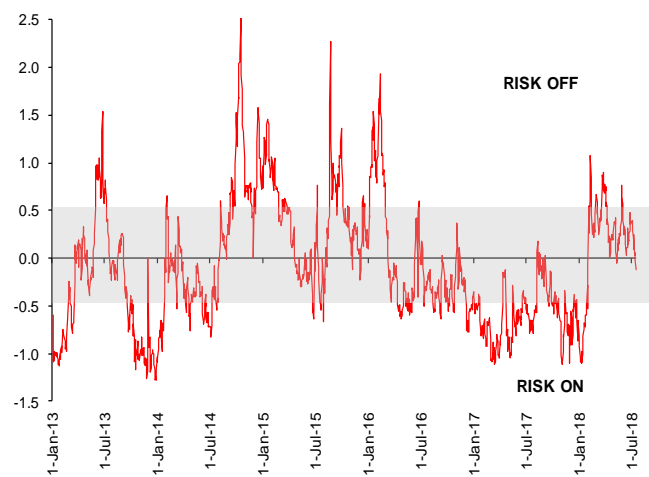
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1.000	0.241	-0.162	-0.190	0.149	-0.195	0.140	-0.367	0.213	0.095	-0.105	-0.901
CAD	0.636	0.544	-0.681	-0.407	0.430	-0.073	-0.420	-0.552	0.412	0.098	-0.597	-0.766
CHF	0.629	-0.162	0.449	0.469	-0.075	-0.518	0.763	-0.191	-0.362	0.432	0.432	-0.302
SGD	0.386	-0.570	0.559	-0.373	-0.731	0.004	0.317	0.415	0.525	0.499	0.662	-0.189
PHP	0.356	-0.025	0.189	0.231	0.043	-0.385	0.298	-0.200	-0.106	-0.295	0.102	-0.194
USGG10	0.241	1.000	-0.765	0.086	0.889	-0.189	-0.297	-0.747	-0.221	-0.290	-0.769	-0.375
JPY	0.140	-0.297	0.768	0.712	-0.248	-0.604	1.000	-0.028	-0.558	-0.549	0.749	0.279
KRW	0.131	-0.626	0.836	0.164	-0.670	-0.330	0.743	0.270	0.075	-0.027	0.862	0.236
IDR	0.065	-0.827	0.923	0.294	-0.797	-0.088	0.620	0.601	-0.283	-0.022	0.927	0.220
MYR	-0.103	-0.842	0.903	0.027	-0.853	-0.073	0.574	0.636	0.118	0.221	0.918	0.328
CNH	-0.105	-0.769	0.996	0.224	-0.803	-0.150	0.749	0.546	-0.057	0.038	1.000	0.444
TWD	-0.126	-0.832	0.884	-0.046	-0.823	0.040	0.511	0.633	0.178	0.241	0.876	0.325
NZD	-0.141	0.716	-0.840	0.057	0.797	0.000	-0.542	-0.602	-0.178	-0.338	-0.874	-0.111
CNY	-0.162	-0.765	1.000	0.305	-0.756	-0.157	0.768	0.567	-0.173	-0.070	0.996	0.452
INR	-0.210	-0.806	0.730	0.016	-0.853	0.170	0.339	0.758	0.063	0.270	0.769	0.362
THB	-0.267	-0.801	0.946	0.265	-0.780	-0.192	0.691	0.578	-0.087	-0.010	0.956	0.535
AUD	-0.782	0.004	0.045	0.520	0.255	0.052	0.043	0.069	-0.529	-0.484	-0.071	0.756
GBP	-0.856	0.086	-0.154	0.258	0.256	0.026	-0.306	-0.006	-0.307	-0.285	-0.265	0.660
EUR	-0.901	-0.375	0.452	0.401	-0.278	-0.012	0.279	0.387	-0.343	-0.250	0.444	1.000

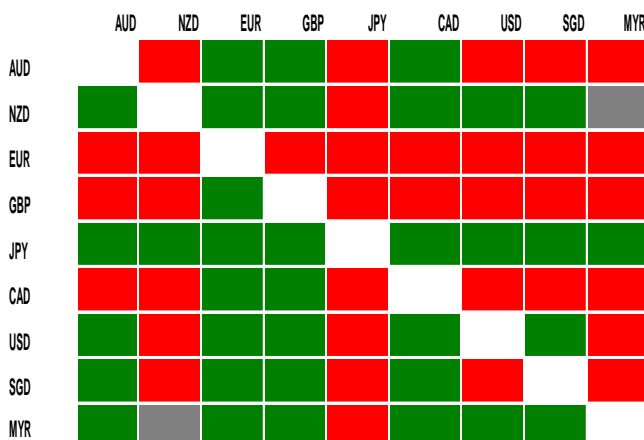
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1566	1.1600	1.1653	1.1700	1.1704
GBP-USD	1.3085	1.3100	1.3111	1.3200	1.3306
AUD-USD	0.7311	0.7330	0.7385	0.7400	0.7467
NZD-USD	0.6697	0.6700	0.6779	0.6800	0.6894
USD-CAD	1.3050	1.3200	1.3204	1.3300	1.3345
USD-JPY	110.40	112.00	112.94	113.00	113.08
USD-SGD	1.3559	1.3600	1.3661	1.3700	1.3703
EUR-SGD	1.5799	1.5900	1.5918	1.5983	1.6000
JPY-SGD	1.2058	1.2069	1.2094	1.2100	1.2140
GBP-SGD	1.7893	1.7900	1.7909	1.7960	1.8000
AUD-SGD	1.0000	1.0026	1.0088	1.0100	1.0101
Gold	1200.00	1225.90	1227.90	1228.10	1275.72
Silver	15.51	15.54	15.55	15.60	16.35
Crude	65.18	67.70	67.74	67.80	69.35

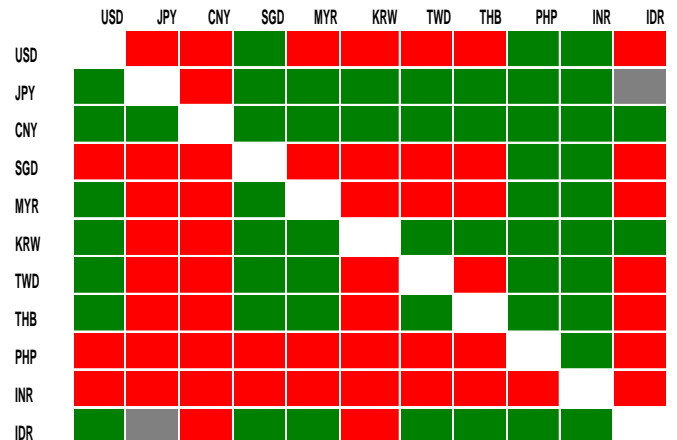
Source: OCBC Bank

G10 FX Heat Map



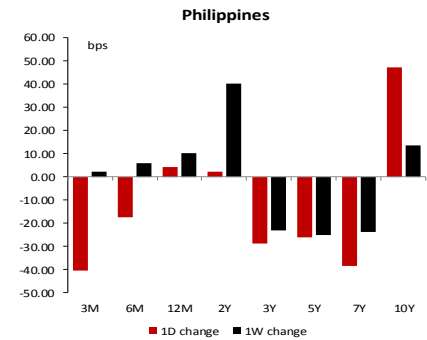
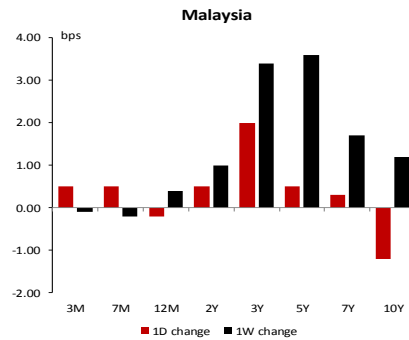
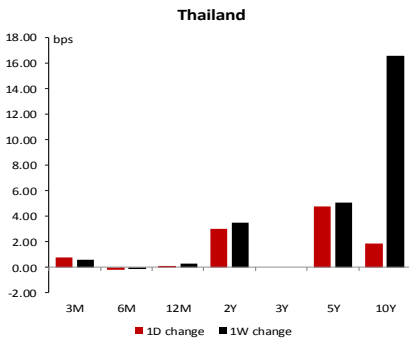
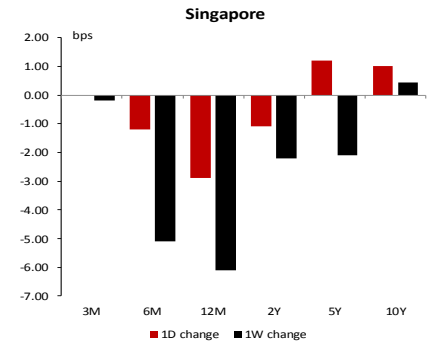
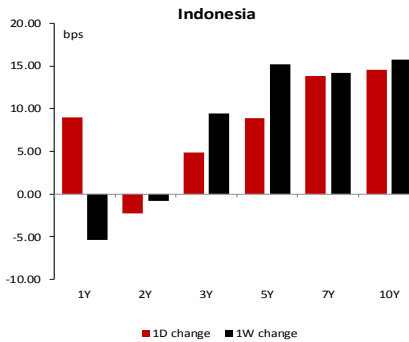
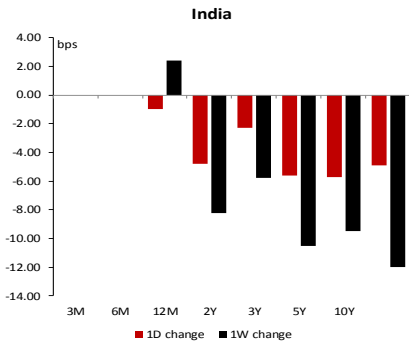
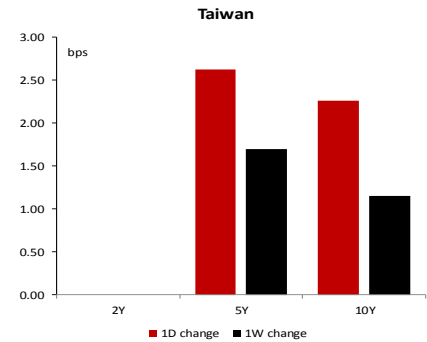
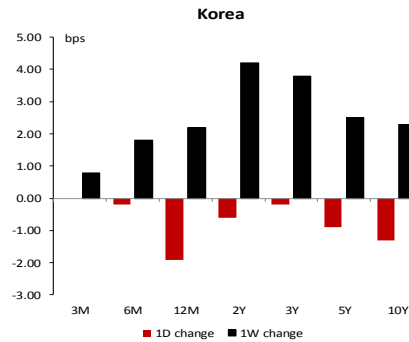
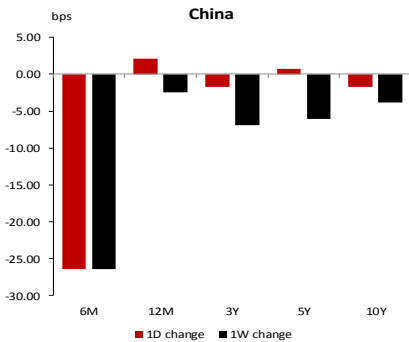
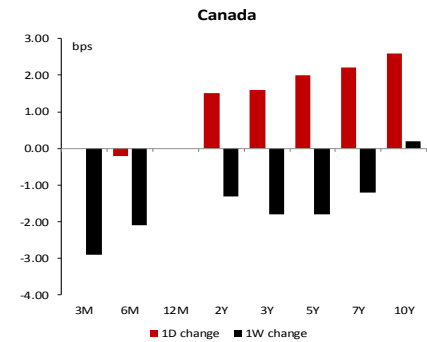
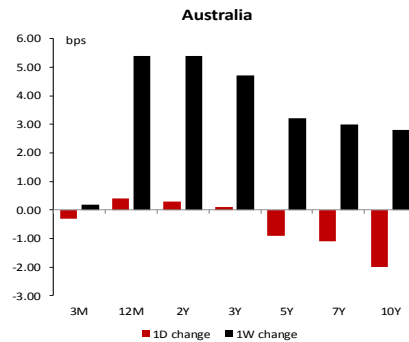
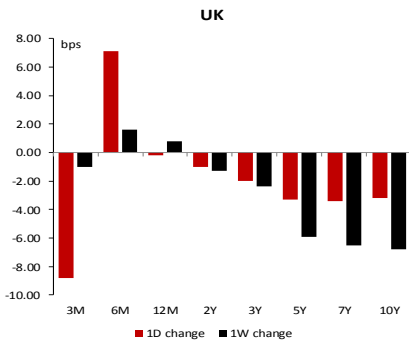
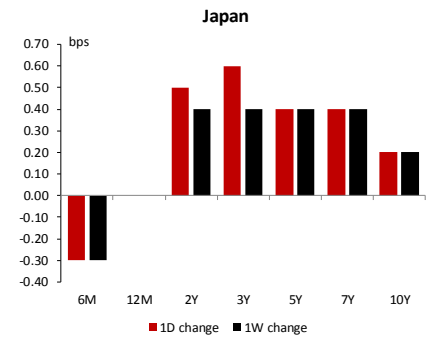
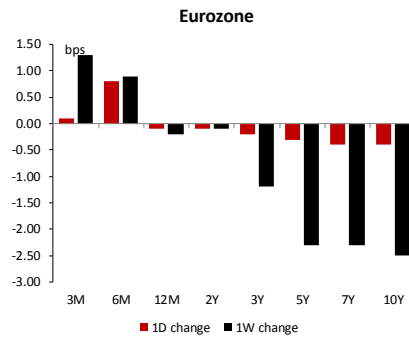
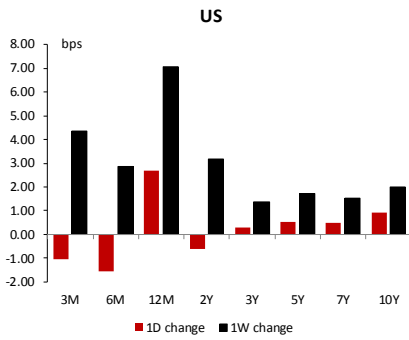
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
