

Tuesday, June 19, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The DXY index is in a consolidative mode in the previous session, struggling to hold on to gains above the 95.00 level before closing near 97.76 levels. The USD closed mixed relative to its G10 peers, with gains against the cyclicals, but declines against the haven currencies.
- This is broadly in-line with a risk-off tone, with sentiments heavy given the escalating Sino-US trade tensions. Indeed, our **FX Sentiment Index (FXSI)** inched higher again towards the Risk-Off zone.
- This morning's announcement that Trump is asking the USTR to find a further US\$200bn worth of Chinese imports to be subjected to a 10% tariff, and the subsequent firm response from the Chinese, does not augur well on the trade front. **Expect the USD-JPY and JPY-crosses to see further dips intra-day on further risk-off trading.** As it stands, the USD-JPY is around 1 S.D. higher than its implied valuations, and the percentage deviation is at near-term highs. We may see the implied valuations to attract the USD-JPY lower in the coming sessions.
- Overall, the DXY index may still be largely driven by movements in the EUR. The compromise between Merkel and her coalition partner lend some support to the EUR.
- **We still lack convincing US-centric drivers for the broad USD strength.** A softening 10y UST yield, and a flattening yield curve does not provide support for the broad USD. With G10 yields softening more, yield differential arguments have opened up in favour of the USD. However, we have yet to see the expected positive correlation with the DXY index crystallize.
- For today, watch for ECB's Draghi (0800 GMT), Praet (0830 GMT, 1100 GMT) and Lane (1100 GMT). Fed's Bullard (1100 GMT) also scheduled to make an appearance at Sintra. Meanwhile, RBA minutes highlighted its concerns about the lack of inflationary pressures and spare capacity in the labour market. We reiterate that the RBA is a laggard in policy normalization within the G10 central banks space.

Treasury Research &
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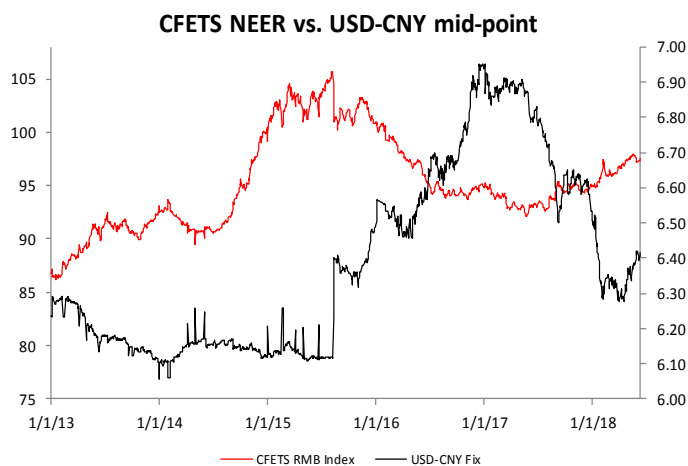
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Asian FX

- The overall picture looks somewhat negative for the Asian currencies. Note that Chinese economic prints are portending a slowdown in growth, at a time when trade tensions with the US could only become worse. The calm provided by a stable RMB may evaporate, as the PBoC turns on the stimulus against a backdrop of slowing growth.
- Couple this with a resurgent USD and further provocation by Trump on the trade front, the wall of worry surrounding the Asian currencies looms high. Perhaps a slight reprieve may be found in the softening long-end UST yields, which eases the immediate pressure on portfolio outflows from Asia. Nevertheless, we expect the **Asian Currency Index (ACI)** to continue to drift higher into mid-week.
- Nevertheless, the **portfolio flow environment** continues to worsen. In particular, bond outflows from Thailand, and equity outflows from Taiwan, are beginning to exert themselves again. Similarly, India saw an uptick in outflows on both the equity and bond fronts. The situation in Indonesia, once it returns later in the week, will be worth a close look.
- In the Asian central bank calendar this week, expect policy decisions from the Bank of Thailand (BOT) and the Bangko Sentral ng Pilipinas (BSP) on Wednesday, and the Central Bank of the Republic of China (CBC) on Thursday. We expect them to remain static.
- **Indonesia:** Latest comments by the BI governor continue to project a hawkish outlook. IDR stability remains the key, and we expect the BI to be pre-emptive in front-loading rate hikes to defend the IDR.
- **India:** Government bonds may see some support as foreign investment rules are eased on Friday. Total foreign investment in one specific security is now capped at 30%, instead of 20%. Note that the 10y bond yield has eased back below the 7.85% mark. The failure to sustain over the 8.00% level perhaps gave some confidence that that level is a near term no-fly zone for the RBI.
- **SGD NEER:** The SGD NEER is largely static this morning, hovering at +0.35% above its perceived parity (1.3556), with the NEER-implied USD-SGD thresholds slightly softer. An intra-day range between +0.20% (1.3529) and +0.50% (1.3489) may continue to guidance the USD-SGD.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, by more than expected, at 6.4235 compared to 6.4306 on Friday. The CFETS RMB Index strengthened to 98.13, compared to 97.85 previously.



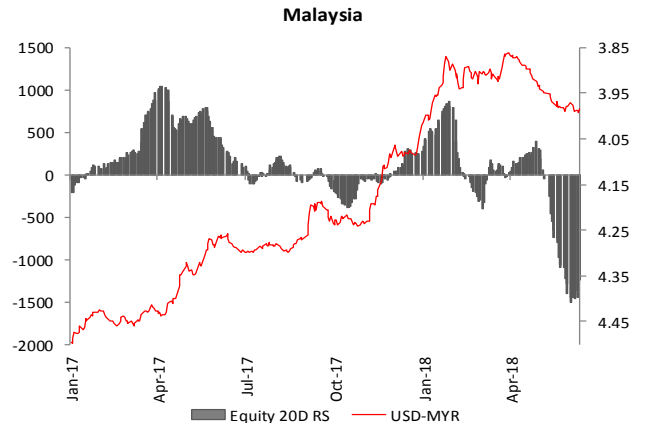
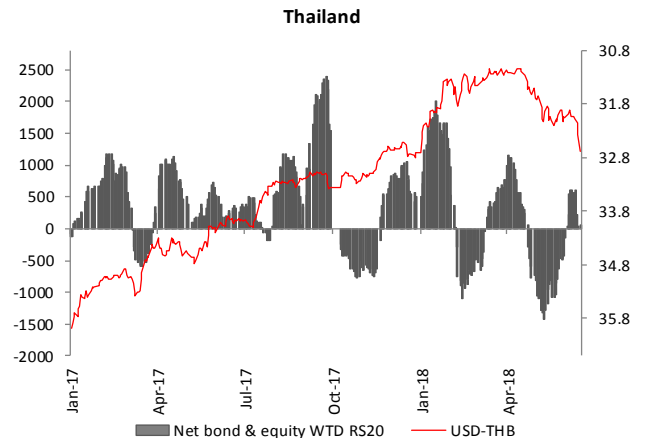
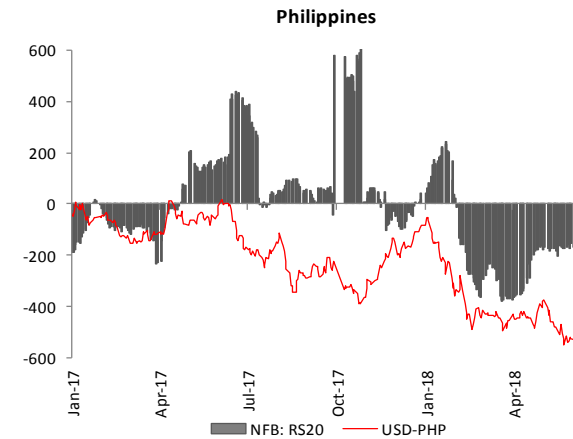
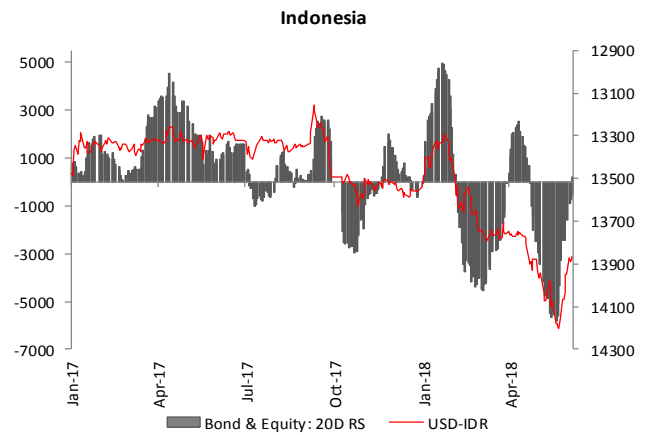
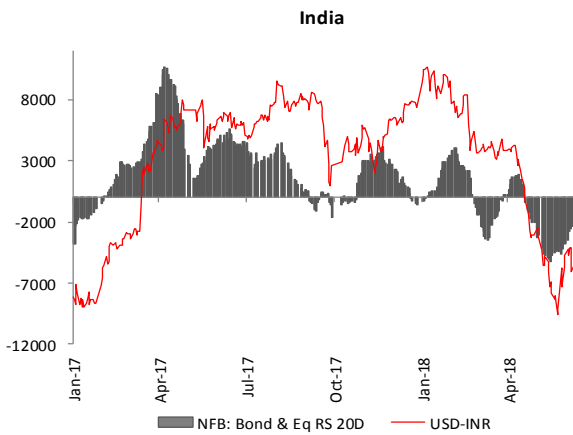
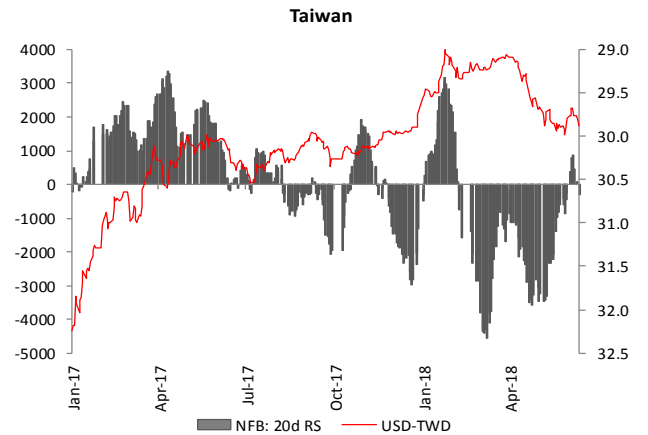
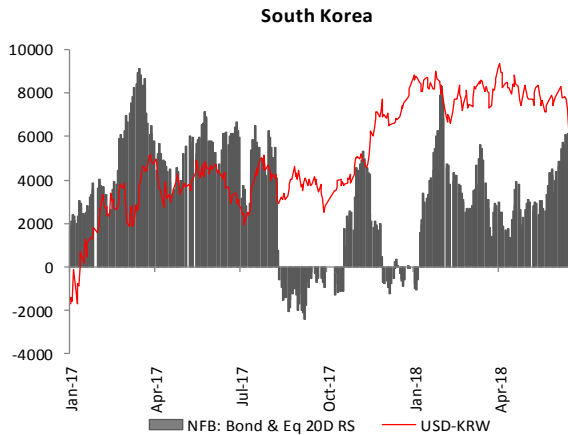
Source: OCBC Bank, Bloomberg

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; RBI ease foreign ownership caps on 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; further rate hikes possible; inflation came in softer than expected again, though it may not have significant impact on monetary policy
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

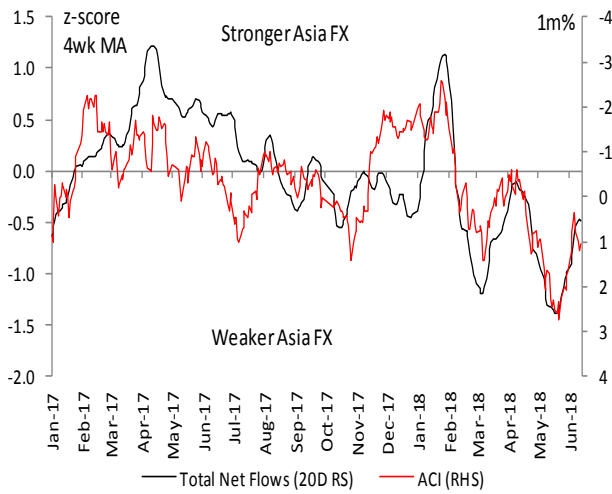
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



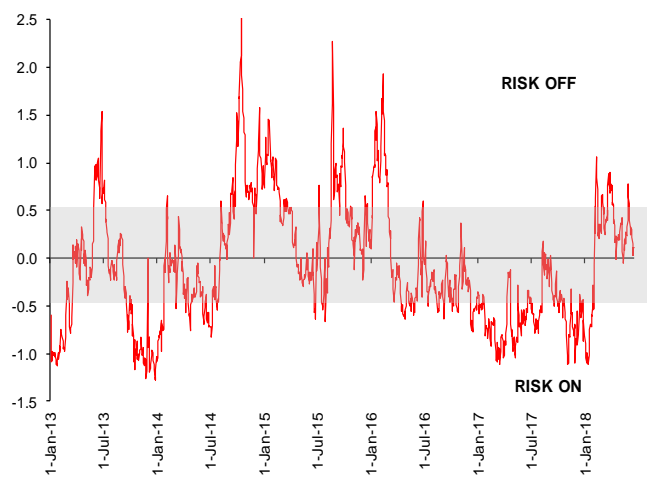
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1.000	-0.519	0.557	-0.131	-0.563	-0.323	-0.063	-0.202	0.277	0.127	0.729	-0.966
SGD	0.867	-0.224	0.372	-0.108	-0.567	-0.137	0.189	0.037	0.150	-0.118	0.665	-0.763
CNH	0.729	-0.691	0.913	0.229	-0.340	-0.729	-0.093	-0.644	0.128	0.530	1.000	-0.664
CAD	0.671	-0.448	0.648	0.477	-0.053	-0.835	0.151	-0.655	-0.161	0.396	0.900	-0.565
CHF	0.634	0.228	-0.039	-0.139	-0.469	0.206	0.420	0.448	-0.006	-0.521	0.178	-0.547
TWD	0.563	-0.198	0.206	-0.553	-0.828	0.477	-0.130	0.522	0.572	-0.119	0.126	-0.561
KRW	0.561	0.079	0.319	0.219	-0.418	-0.294	0.512	0.081	-0.154	-0.199	0.536	-0.373
CNY	0.557	-0.722	1.000	0.086	-0.384	-0.606	-0.318	-0.651	0.279	0.578	0.913	-0.549
THB	0.518	0.032	0.340	0.310	-0.323	-0.330	0.514	0.034	-0.159	-0.104	0.553	-0.332
PHP	0.439	-0.184	0.277	0.516	-0.148	-0.577	0.241	-0.330	-0.151	0.261	0.649	-0.305
MYR	0.281	-0.304	0.388	0.457	-0.229	-0.341	0.015	-0.189	-0.010	0.503	0.574	-0.209
INR	0.228	0.312	-0.312	-0.250	-0.330	0.482	0.269	0.734	0.069	-0.493	-0.134	-0.168
IDR	0.146	0.611	-0.614	-0.515	-0.338	0.927	0.383	0.936	0.070	-0.716	-0.679	-0.075
JPY	-0.063	0.741	-0.318	0.567	0.363	-0.171	1.000	0.177	-0.640	-0.575	-0.093	0.266
USGG10	-0.519	1.000	-0.722	0.294	0.439	0.335	0.741	0.539	-0.642	-0.799	-0.691	0.637
NZD	-0.540	0.002	0.171	0.565	0.502	-0.498	-0.008	-0.565	-0.350	0.367	-0.098	0.561
AUD	-0.831	0.278	-0.416	-0.020	0.536	0.232	-0.203	0.051	-0.141	-0.034	-0.738	0.709
GBP	-0.905	0.690	-0.648	0.194	0.681	0.314	0.256	0.307	-0.432	-0.333	-0.800	0.907
EUR	-0.966	0.637	-0.549	0.289	0.633	0.205	0.266	0.209	-0.422	-0.214	-0.664	1.000

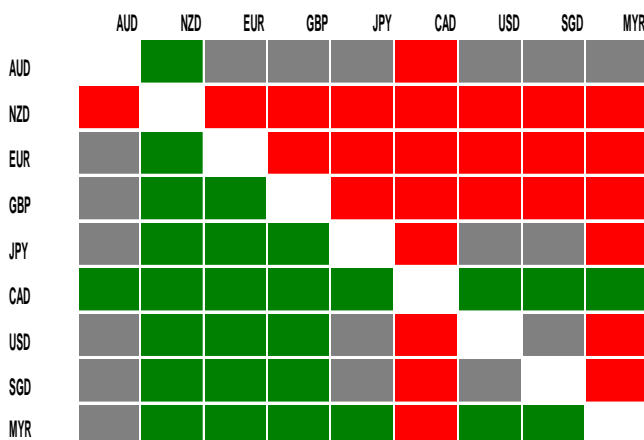
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1542	1.1600	1.1644	1.1700	1.1835
GBP-USD	1.3205	1.3221	1.3273	1.3300	1.3445
AUD-USD	0.7394	0.7400	0.7414	0.7418	0.7500
NZD-USD	0.6891	0.6900	0.6943	0.7000	0.7040
USD-CAD	1.3199	1.3200	1.3208	1.3237	1.3300
USD-JPY	109.00	109.34	109.81	110.00	110.25
USD-SGD	1.3358	1.3500	1.3509	1.3519	1.3535
EUR-SGD	1.5547	1.5700	1.5729	1.5787	1.5800
JPY-SGD	1.2196	1.2300	1.2302	1.2358	1.2400
GBP-SGD	1.7783	1.7900	1.7930	1.7957	1.8000
AUD-SGD	0.9966	1.0000	1.0015	1.0021	1.0100
Gold	1274.00	1277.63	1278.70	1300.00	1306.56
Silver	16.17	16.50	16.53	16.58	16.60
Crude	63.59	65.50	65.52	65.60	68.17

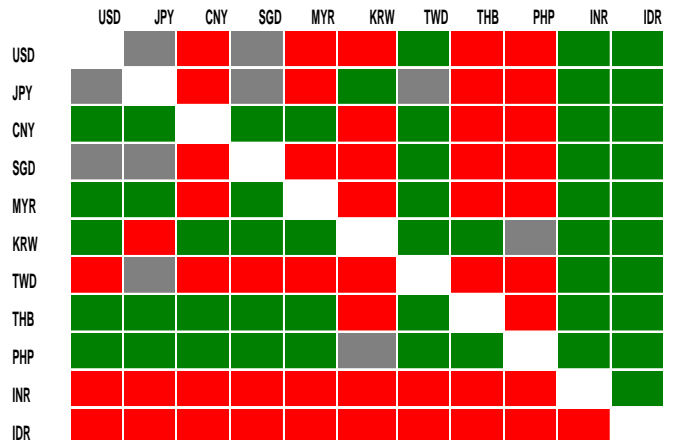
Source: OCBC Bank

G10 FX Heat Map



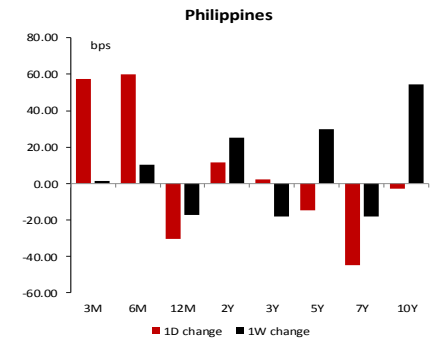
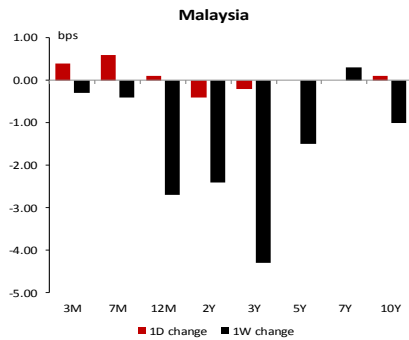
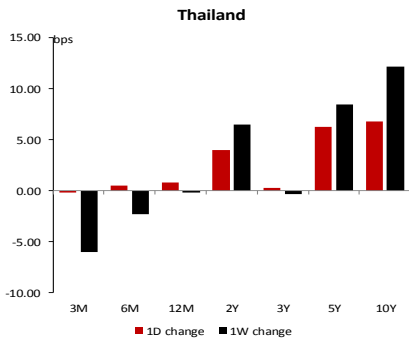
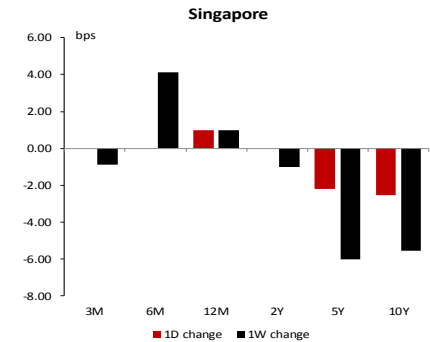
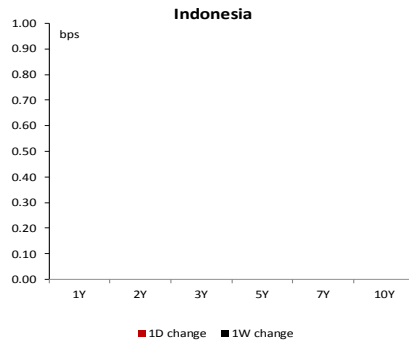
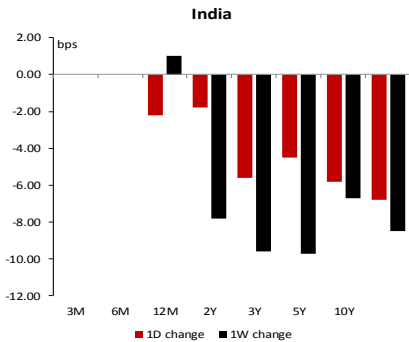
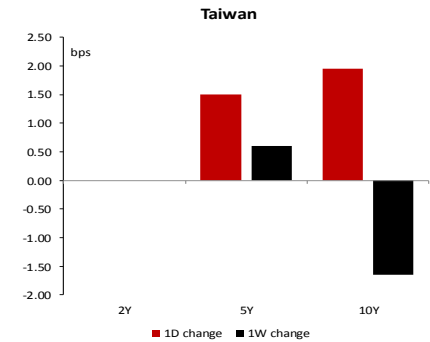
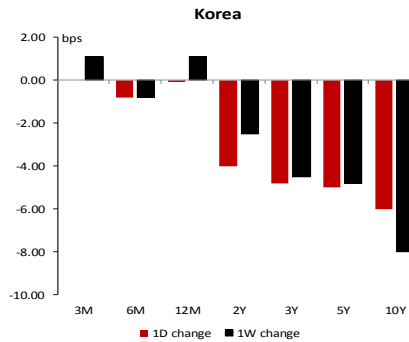
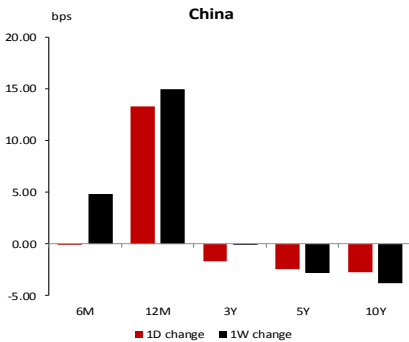
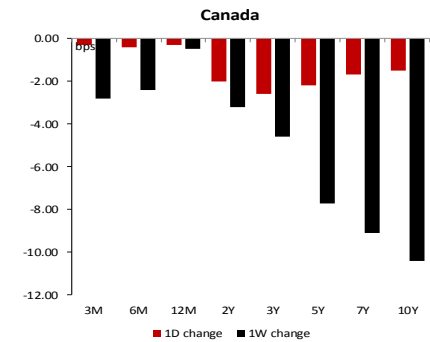
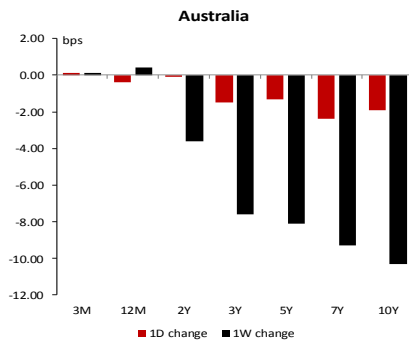
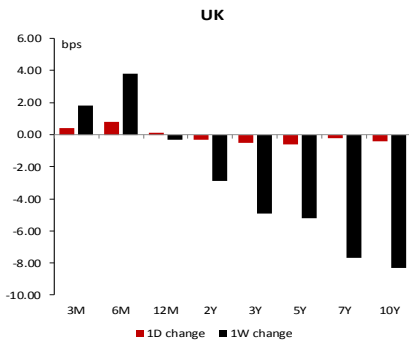
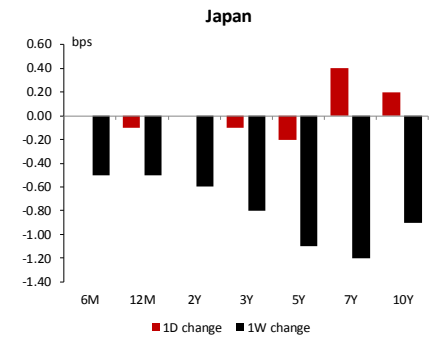
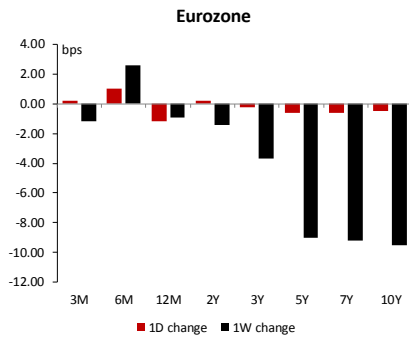
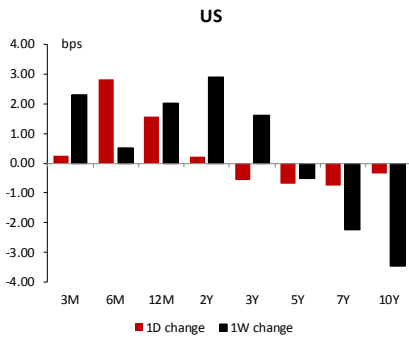
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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