

Friday, July 20, 2018

FX Themes/Strategy/Trading Ideas

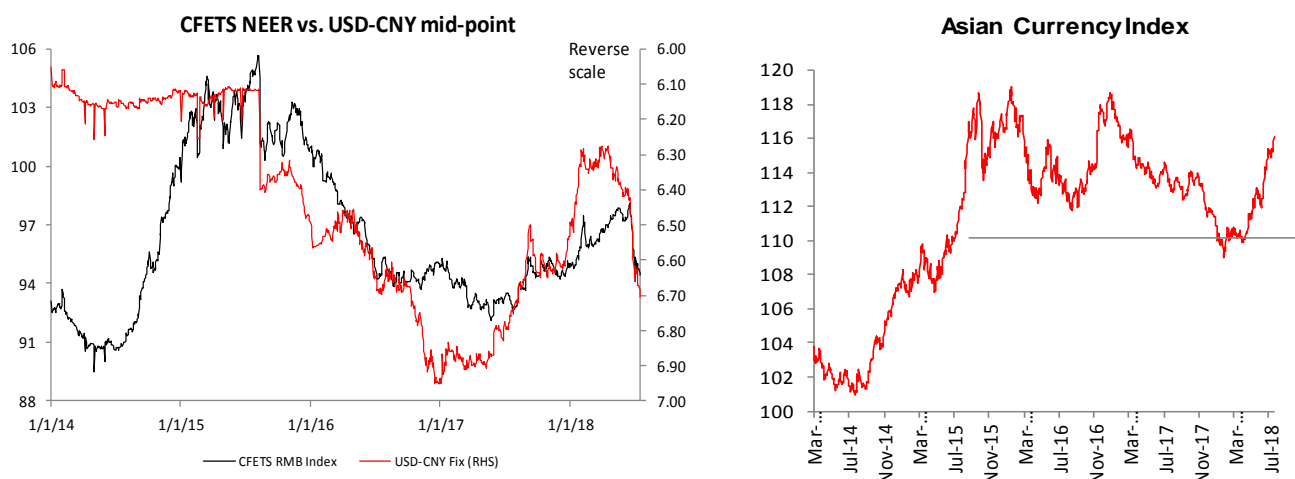
- The DXY index hit a high above 95.60, before turning on President Trump's comments. Cyclical bore the brunt of USD strength, while the JPY outperformed.
- Trump broke with traditions by commenting directly on monetary policy, stating that he is "not thrilled" by the Fed's rate hikes. **We think this is the excuse markets needed to take profit on the USD, with it being at recent range highs. Nevertheless, don't expect this to materially shift the Fed's rate hike trajectory.** Thus, we do not expect it to initiate a sustained USD downtrend.
- Meanwhile, Trump has finally spoken out on RMB weakness, noting that the CNY is "dropping like a rock", and the strong USD puts the US "at a disadvantage". This may have more potential to shake up markets beyond a knee-jerk, given the trade war backdrop and recent rapid depreciation in the RMB. **Any indications of a follow-up by Trump would almost certainly to be rolled into the trade war theme, and be viewed as a further escalation.** This would flag risk sentiments again after recent improvements.
- Headlines about the "monetary easing" by the PBoC through the major banks undergirded concerns about Chinese economic fundamentals. Coupled this with market attention on the depreciating RMB, the wall of worry due to China exposure picked up quickly and hit the AUD and the NZD overnight. The sudden turn in risk sentiments, with our **FX Sentiment Index (FXSI)** showing an overall worsening of risk appetite after five consecutive sessions of improvement, also put the cyclical under pressure.
- **Overall, a consistent USD-centric theme is still absent. The Sino-US trade war remains an ongoing story, but its sway may be limited to the antipodeans, rather than imparting broad USD directionality.**
- The G7 calendar is light today, with mostly second-string data from the Eurozone. Watch Canadian inflation prints (1230 GMT) and comments from Fed's Bullard (1220 GMT).

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Asian FX

- Weaker global equities and EM FX hitting new year-to-date lows put an end to the recent improvements in risk sentiments. The **FX Sentiment Index (FXSI)** turned towards the Risk-Off zone, after making steps towards the Risk-On territory in the past five sessions.
- The RMB complex will continue to be the focus. Rapid depreciation over the past two sessions (and early this morning) put investors on the lookout for PBoC push-back. However, the signs do not look forthcoming as yet (see China comment below). Comments by Trump may further murky the waters. At this juncture, note that short-end riskies continue to favour a higher USD-CNH.
- **In the interim, expect the Asian Currency Index (ACI) to take cues from the RMB complex**, with the betas stronger higher for the KRW and TWD.
- In terms of **Asian portfolio flows**, equity outflow momentum from Taiwan continued to ease. A similar compression of outflow momentum is also noted in Thailand. Latest readings from Indonesia, however, showed further escalation of outflow momentum, led by bonds.
- **SGD NEER**: The SGD NEER is firmer this morning, standing at around +0.85% above its perceived parity level (1.3813). The NEER-implied USD-SGD thresholds were firmer overnight. Intra-day, expect the pair to stay contained within the +0.60% (1.3731) and +1.00% (1.3677) thresholds. Note that the majority of SGD NEER gains over the past month is on the back of a weaker CNY.
- **CFETS RMB Index**: The USD-CNY mid-point was set higher, above our expectations at 6.7671 compared to 6.7066 on Thursday. The CFETS RMB Index eased to 93.78, compared to 94.45 previously.
- **China**: Note that the fix today is +0.90% higher than the previous, beyond the historical norms in terms of daily deviation. Together with yesterday's fix, which was above the 6.7000 handle, this gives the picture that the PBoC is comfortable with the recent depreciation, and not making an attempt to hold back the USD-CNY gains (at least not through controlling the midpoint fixes). A push by the USD-CNY above the 6.8000 intra-day may attract some PBOC resistance, but the scope and conviction may be limited. **Given the new developments, there may not be any "line in the sand" to be defended, although the pace of depreciation will still be closely watched. The next waypoint to note may be the CFETS RMB Index at 92.00, the point where the PBoC previously initiated the counter-cyclical factor.**



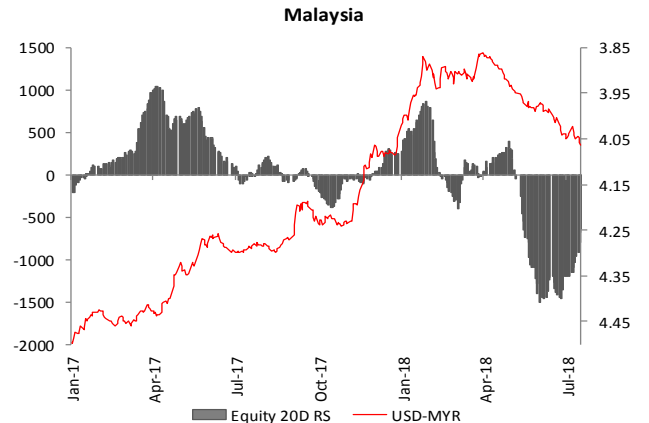
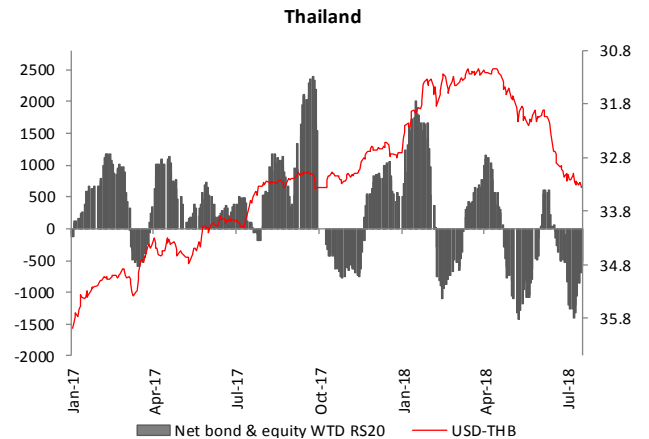
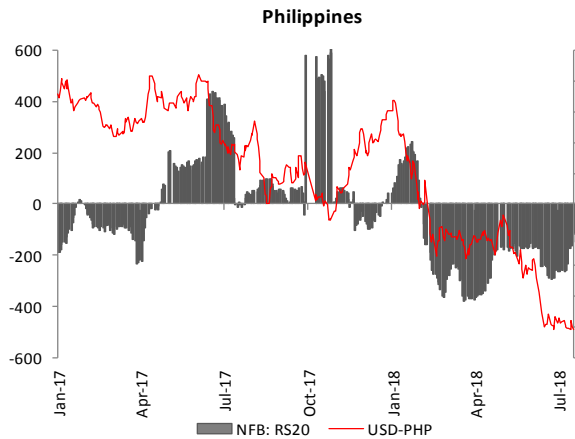
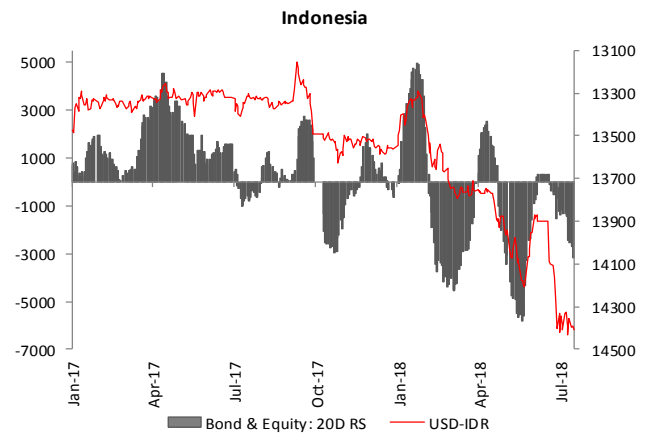
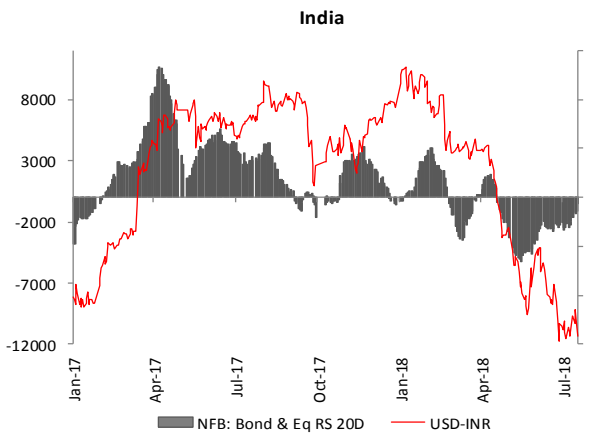
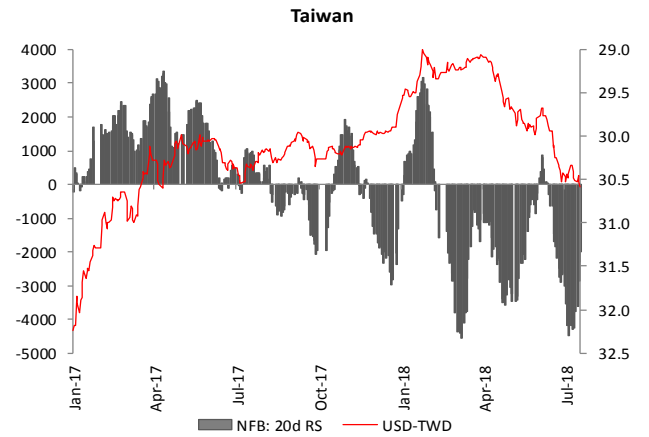
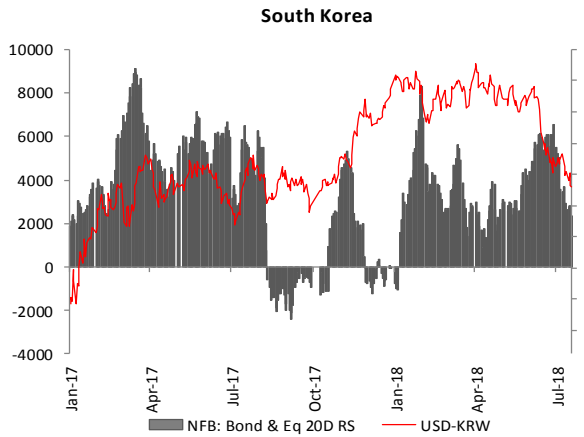
Source: OCBC Bank, Bloomberg

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 both near 6.8000 and the CFETS RMB Index closing on 93.00 with little evidence of PBoC support; may not be any "line in the sand" in the near term
USD-KRW	↑	Portfolio inflows compressing; govt downgrades inflation forecasts and growth outlook for 2018; dovish outlook by BOK and govt not helpful for KRW
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; may be dragged higher by TSMC dividend repatriation
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 1.3600
USD-MYR	↔/↑	Inflation miss should be attributed to policy changes under new govt; structurally overvalued compared to Asian peers based on foreign reserves and current account metrics
USD-IDR	↑	BI kept the policy rate unchanged in the latest meeting, although the rhetoric remains hawkish; USD-IDR broke through the 14,450 recent top end
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

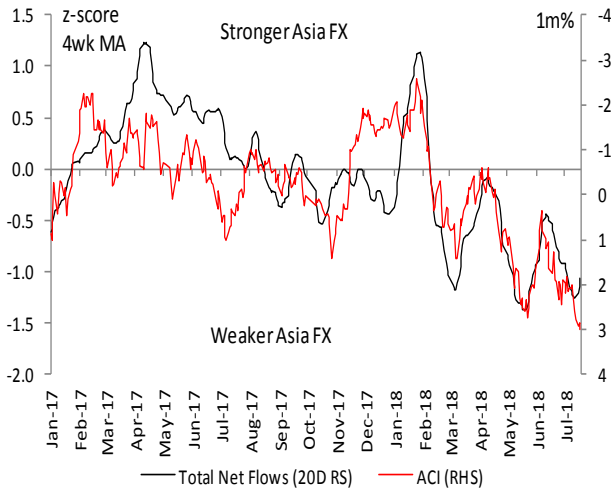
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



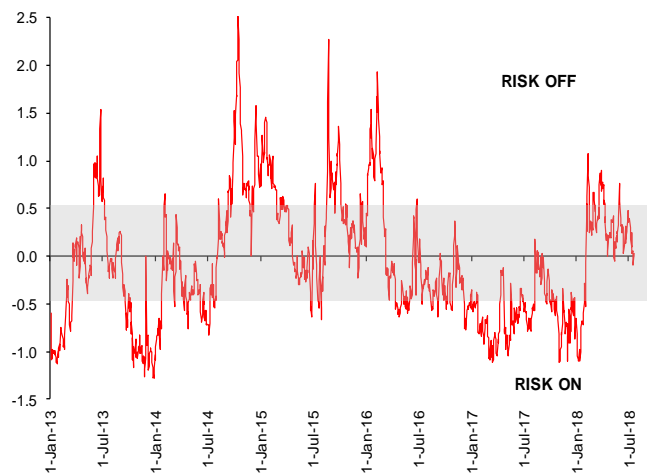
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXE	CNH	EUR
DXY	1.000	0.182	0.045	-0.016	0.096	-0.326	0.273	-0.373	0.105	-0.044	0.115	-0.875
CHF	0.668	-0.216	0.524	0.537	-0.153	-0.584	0.784	-0.184	-0.422	-0.473	0.557	-0.324
CAD	0.638	0.520	-0.522	-0.343	0.494	-0.090	-0.313	-0.581	0.389	0.069	-0.451	-0.755
SGD	0.570	-0.467	0.648	-0.129	-0.598	-0.179	0.453	0.228	0.301	0.230	0.678	-0.313
PHP	0.431	-0.120	0.329	0.324	-0.092	-0.482	0.419	-0.198	-0.158	-0.364	0.324	-0.198
KRW	0.349	-0.488	0.874	0.432	-0.524	-0.534	0.820	0.084	-0.202	-0.337	0.878	0.088
JPY	0.273	-0.299	0.812	0.787	-0.261	-0.694	1.000	-0.064	-0.646	-0.661	0.834	0.196
IDR	0.195	-0.780	0.900	0.383	-0.780	-0.222	0.657	0.481	-0.350	-0.142	0.911	0.136
USGG10	0.182	1.000	-0.694	0.018	0.876	-0.152	-0.299	-0.696	-0.124	-0.189	-0.670	-0.338
MYR	0.178	-0.702	0.926	0.290	-0.758	-0.298	0.723	0.370	-0.139	-0.083	0.932	0.185
CNH	0.115	-0.670	0.996	0.444	-0.708	-0.346	0.834	0.379	-0.289	-0.237	1.000	0.313
CNY	0.045	-0.694	1.000	0.447	-0.704	-0.352	0.812	0.407	-0.283	-0.248	0.996	0.339
TWD	0.020	-0.791	0.895	0.120	-0.800	-0.140	0.588	0.523	0.050	0.063	0.891	0.263
THB	-0.061	-0.667	0.952	0.463	-0.661	-0.308	0.821	0.375	-0.328	-0.242	0.964	0.444
INR	-0.070	-0.763	0.753	0.172	-0.826	0.012	0.401	0.628	-0.097	0.073	0.753	0.286
NZD	-0.258	0.666	-0.821	-0.088	0.737	0.100	-0.594	-0.510	-0.015	-0.164	-0.833	-0.027
AUD	-0.795	-0.017	-0.051	0.390	0.217	0.114	-0.016	0.128	-0.441	-0.364	-0.114	0.783
GBP	-0.842	0.097	-0.433	-0.114	0.229	0.322	-0.495	0.091	-0.014	0.076	-0.499	0.565
EUR	-0.875	-0.338	0.339	0.334	-0.231	0.040	0.196	0.380	-0.339	-0.224	0.313	1.000

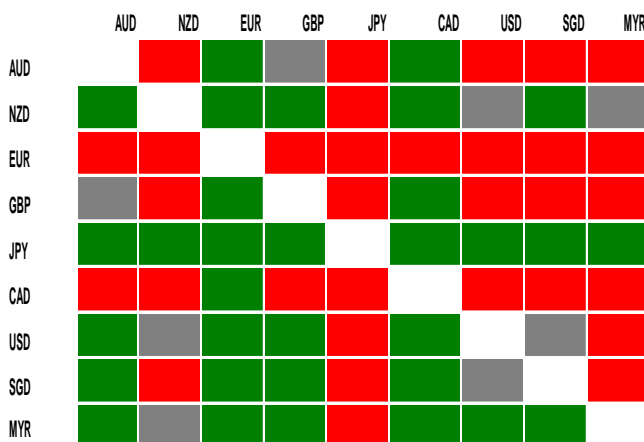
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1570	1.1600	1.1650	1.1693	1.1700
GBP-USD	1.3000	1.3015	1.3021	1.3100	1.3284
AUD-USD	0.7311	0.7324	0.7351	0.7400	0.7464
NZD-USD	0.6698	0.6700	0.6747	0.6800	0.6876
USD-CAD	1.3069	1.3200	1.3264	1.3300	1.3335
USD-JPY	110.52	112.00	112.34	113.00	113.17
USD-SGD	1.3566	1.3700	1.3703	1.3719	1.3746
EUR-SGD	1.5834	1.5900	1.5964	1.5983	1.6000
JPY-SGD	1.2100	1.2141	1.2198	1.2200	1.2226
GBP-SGD	1.7800	1.7828	1.7843	1.7900	1.7948
AUD-SGD	1.0000	1.0035	1.0073	1.0100	1.0101
Gold	1200.00	1210.70	1218.00	1219.91	1274.27
Silver	15.14	15.30	15.34	15.37	15.40
Crude	69.35	69.50	69.52	69.60	75.27

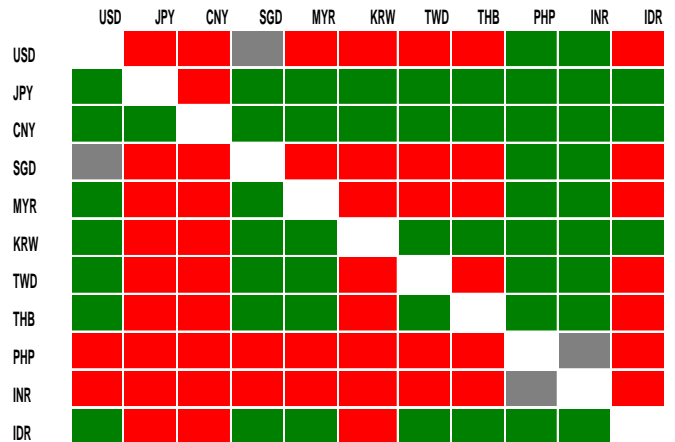
Source: OCBC Bank

G10 FX Heat Map



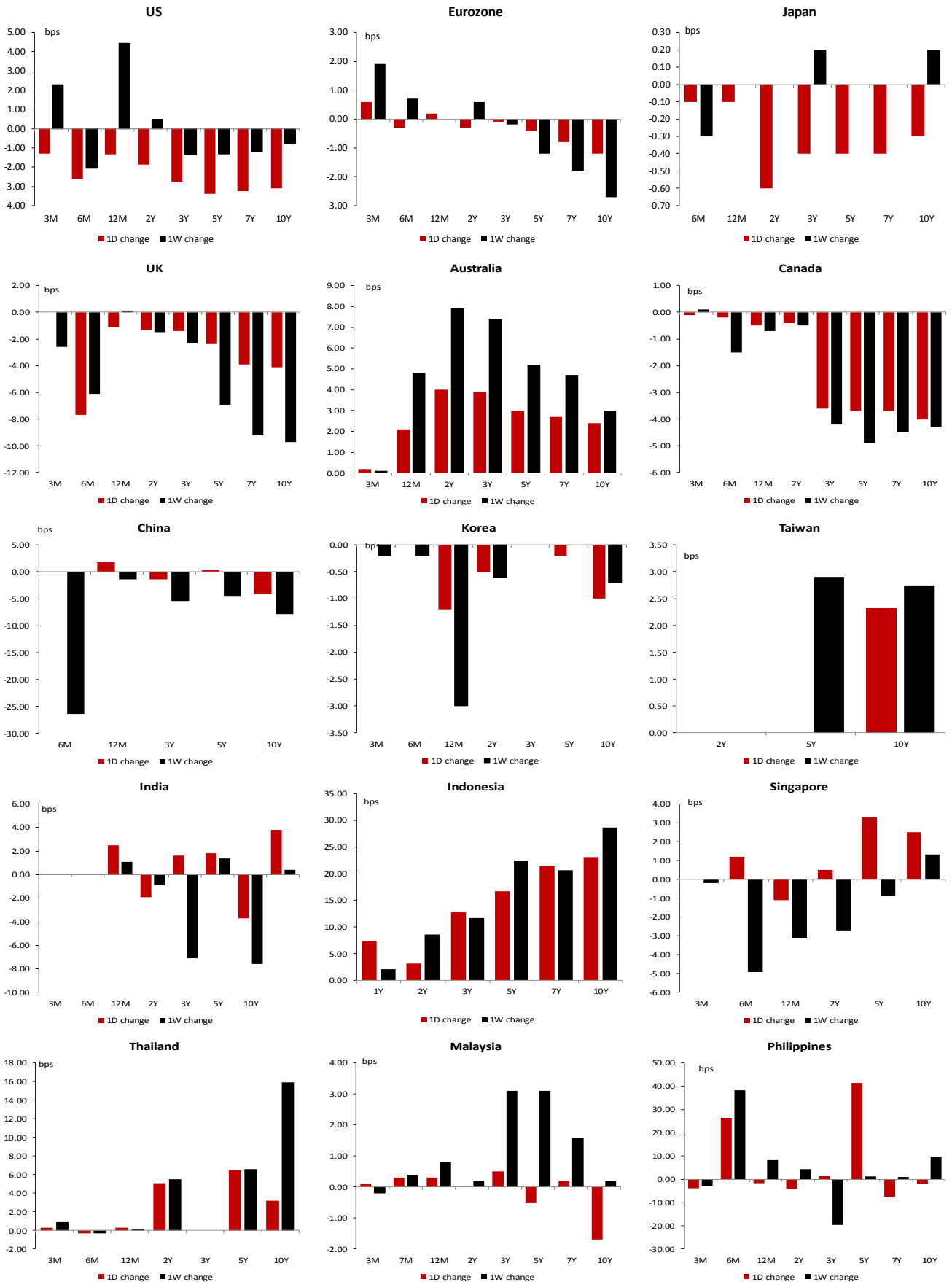
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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