

Wednesday, June 20, 2018

FX Themes/Strategy/Trading Ideas

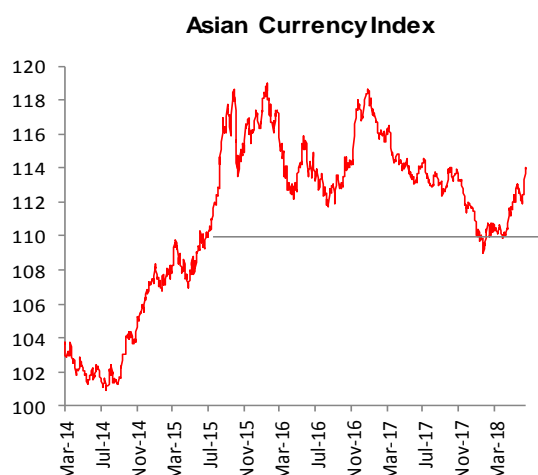
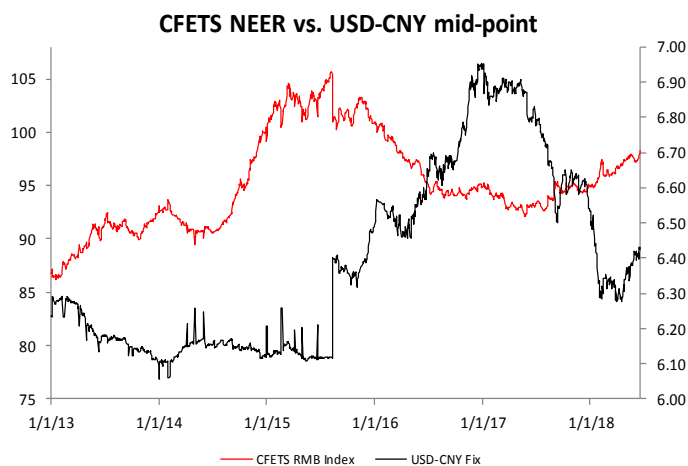
- The DXY index hit a high of 95.30 before reversing to close just above the 95.00 handle. A risk-off tone dominated trading, with cyclicals underperforming their G10 peers, and the JPY and CHF outperforming.
- Higher FX vols in both G10 and EM, and other cross-asset developments, such as negative US/EZ equities and higher UST yields, fed into the worsening risk sentiments. Our **FX Sentiment Index (FXSI)** took a big step towards the Risk-Off zone, while still staying an overall Risk Neutral zone. With no near-term end in sight for the Sino-US trade tensions, we do expect the FXSI to edge into the outright Risk-Off zone in the coming sessions.
- The EUR continues to be negatively pressured, with rhetoric from Draghi and other ECB council members reinforcing the dovish interest rate trajectory. At this juncture, note that our implied valuation model for the EUR continues to point south, and the EUR remains overvalued by this measure. The May low of 1.1510 may continue to attract in the near term.
- Meanwhile, with little to distract the market from Sino-US trade tensions, expect the cyclicals to remain under fire. Nevertheless, given the sharp moves over the past four sessions, some consolidation may be on tap. Note that both the AUD and CAD are looking stretched on the weak side by our implied valuation models. The CAD, in particular, is more than 1 S.D. weaker than its implied valuation.
- **At this point, we may be reduced to headline watching on the Sino-US trade front. Expect the risk on / risk off dynamic to dominate trading, with the impact from central bank rhetoric focused on the EUR.**
- With the data calendar light today, the focus will be on central bank comments. Expect further comments from Draghi, Powell, Kuroda and Lowe in the Sintra Conference as the sit on the same panel (1330 GMT). Many opportunities for other ECB officials to voice their views as well throughout the day as well. BOJ's Amamiya (0635 GMT) also scheduled.

Treasury Research &
Strategy

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- Eyes will still be on the Sino-US trade tensions for Asia. With the potential expansion of the scope of tariffs, it will eventually encompass goods with components sourced from other parts of Asia. This essentially makes the export-driven Asian economies, especially those in North Asia, collateral damage in the potential conflict.
- In terms of **Asian portfolio flow environment**, South Korea remains the only bright spot. Even so, equity outflows from South Korea has also built in the past week, just that it is offset by still robust bond inflows. Meanwhile, equity outflows from Taiwan intensified further. Similarly, equity and bond outflows from Thailand are also persisting. Of note are the Thai bond flows, which reverted into an outflow situation over the past week, after a good run of inflows from late-May to mid-June.
- **Note that the USD-CNY fix today was stronger than market expectations, and this may temporarily slow down the decline in the RMB complex, and also impart some intra-day stability to the Asian currencies. Nevertheless, the fundamental picture remains stacked against the Asian currencies. Expect any intra-day dips for the Asian Currency Index (ACI) to be shallow.**
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) policy decision is scheduled at today (0800 GMT), with market expectations on a rate hike somewhat mixed. Note that long-end real rates are close to low end by recent standards, and this supports the argument for a hike later today.
- **Thailand:** The Bank of Thailand (BOT) rate decision is also scheduled today (0705 GMT), with market expectations for a hold. The recent decline in the THB should not overly concern the BOT. We do not expect the BOT to contemplate tightening in defence of the currency. In this respect, expect the BOT to be a relative laggard in terms of policy normalization within the Asian central banks.
- **SGD NEER:** The SGD NEER is softer this morning, hovering at +0.19% above its perceived parity (1.3593). The NEER-implied USD-SGD thresholds firmed again yesterday, in line with the gains in the DXY index. slightly softer. Expect the USD-SGD to traverse the range between parity (1.3593) and +0.40% (1.3539) intra-day. With the spectre of trade wars still looming, the 1.3600 should attract into the end of the week.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations, at 6.4586 compared to 6.4235 on Tuesday. Note that this fix is firmer than the majority of the street. The CFETS RMB Index strengthened further to 98.23, compared to 98.13 previously.



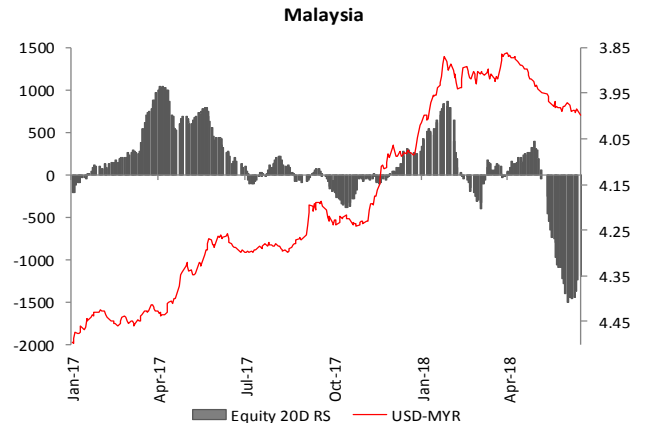
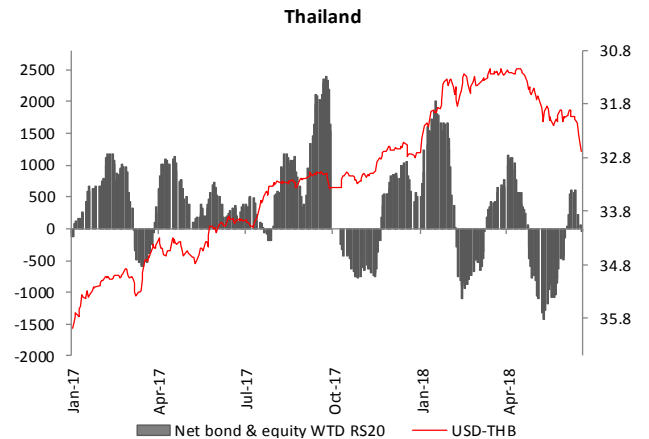
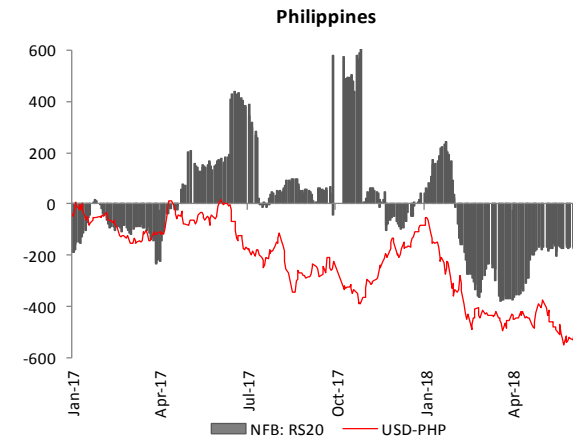
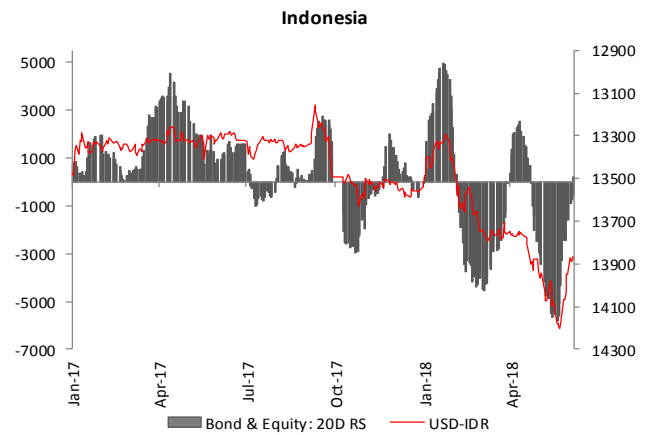
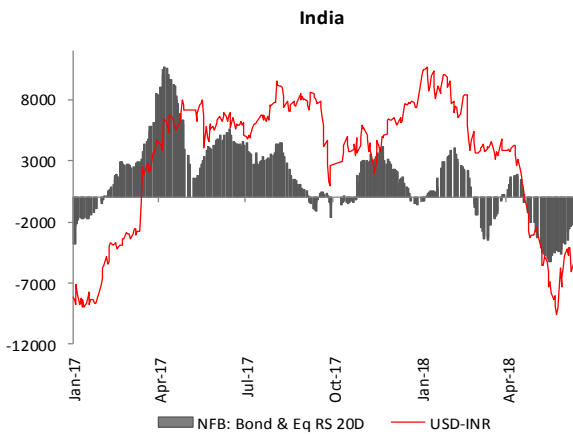
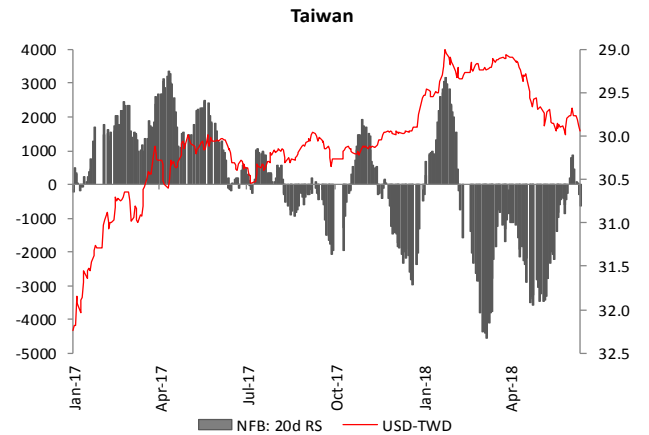
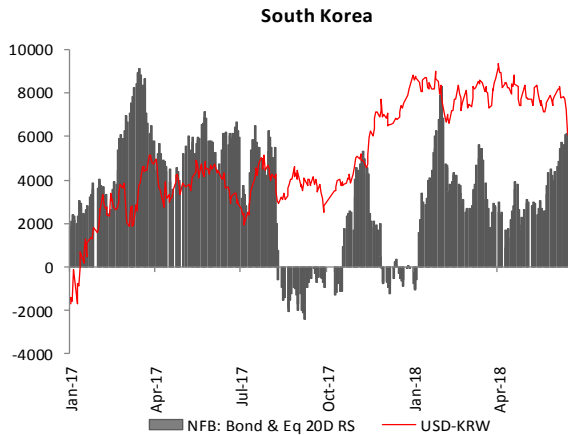
Source: OCBC Bank, Bloomberg

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 outflows re-asserting after short reprieve; 1Q current account surplus shrinks
USD-INR	↔/↑	May inflation prints in line, but continue to show accelerating price pressures; current account deficit widened more than expected; the RBI may be biased for further hikes in the upcoming meetings; RBI ease foreign ownership caps on government bonds
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; bond outflows re-asserting after a short reprieve
USD-PHP	↑	May BOP deficit wider than expected, despite stronger than expected remittances; BSP governor appear comfortable with recent weakening of the PHP

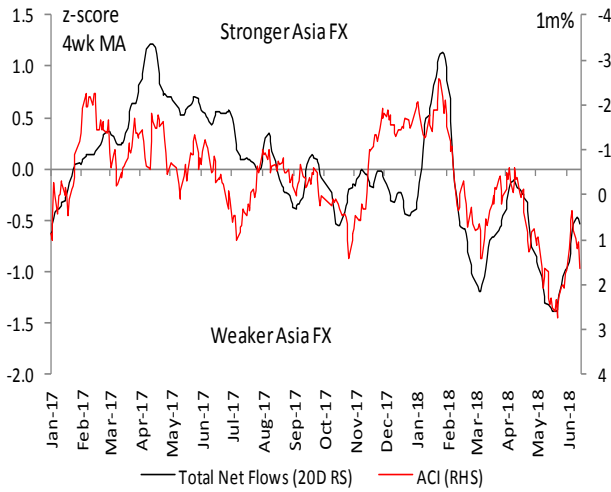
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



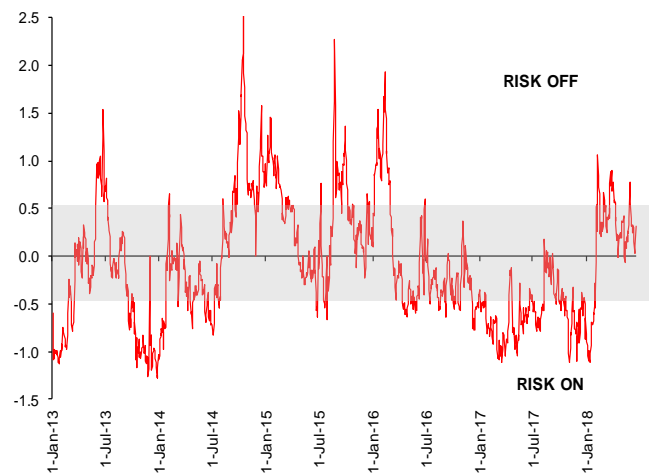
Source: CEIC, Bloomberg, OCBC Bank

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	-0.527	0.670	-0.074	-0.658	-0.461	-0.035	-0.265	0.273	0.162	0.782	-0.962
SGD	0.885	-0.265	0.678	-0.029	-0.709	-0.375	0.178	-0.104	0.152	-0.030	0.783	-0.783
CNH	0.782	-0.640	0.948	0.243	-0.556	-0.797	-0.054	-0.640	0.135	0.493	1.000	-0.715
CAD	0.740	-0.449	0.804	0.449	-0.348	-0.874	0.148	-0.652	-0.103	0.389	0.932	-0.639
TWD	0.675	-0.246	0.557	-0.375	-0.886	0.022	-0.066	0.285	0.487	-0.029	0.468	-0.614
CNY	0.670	-0.579	1.000	0.140	-0.640	-0.729	-0.157	-0.574	0.219	0.461	0.948	-0.577
KRW	0.661	-0.015	0.726	0.243	-0.621	-0.507	0.460	-0.074	-0.096	-0.089	0.712	-0.459
CHF	0.654	0.187	0.156	-0.112	-0.503	0.068	0.418	0.378	0.007	-0.480	0.262	-0.577
THB	0.651	-0.118	0.755	0.285	-0.580	-0.532	0.405	-0.113	-0.032	0.021	0.731	-0.466
PHP	0.562	-0.229	0.609	0.515	-0.383	-0.681	0.249	-0.389	-0.114	0.285	0.745	-0.405
MYR	0.473	-0.366	0.661	0.442	-0.457	-0.515	0.040	-0.270	0.052	0.500	0.708	-0.363
INR	0.346	0.235	0.098	-0.196	-0.459	0.226	0.270	0.598	0.083	-0.415	0.111	-0.257
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	-0.035	0.724	-0.157	0.568	0.270	-0.173	1.000	0.165	-0.636	-0.564	-0.054	0.231
USGG10	-0.527	1.000	-0.579	0.275	0.441	0.361	0.724	0.552	-0.643	-0.801	-0.640	0.645
NZD	-0.605	0.052	-0.166	0.490	0.584	-0.242	-0.027	-0.412	-0.345	0.304	-0.308	0.622
AUD	-0.861	0.309	-0.687	-0.071	0.679	0.431	-0.192	0.155	-0.147	-0.090	-0.813	0.761
GBP	-0.920	0.658	-0.775	0.112	0.774	0.484	0.173	0.374	-0.394	-0.340	-0.881	0.891
EUR	-0.962	0.645	-0.577	0.242	0.666	0.319	0.231	0.271	-0.417	-0.236	-0.715	1.000

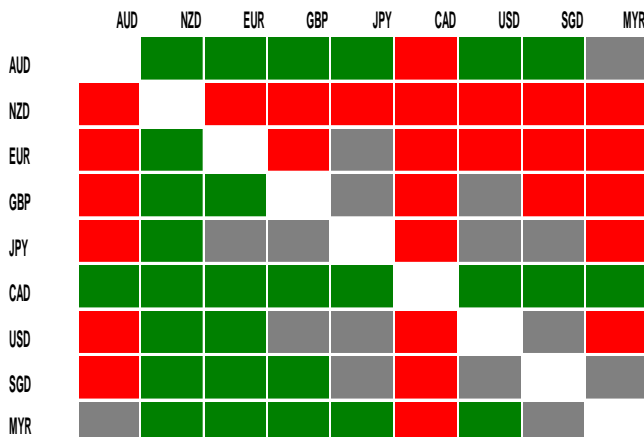
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1510	1.1521	1.1576	1.1600	1.1839
GBP-USD	1.3100	1.3151	1.3161	1.3171	1.3200
AUD-USD	0.7347	0.7384	0.7393	0.7400	0.7569
NZD-USD	0.6883	0.6900	0.6913	0.7000	0.7031
USD-CAD	1.3200	1.3262	1.3281	1.3293	1.3300
USD-JPY	109.41	110.00	110.11	110.25	110.94
USD-SGD	1.3500	1.3560	1.3568	#N/A	1.3600
EUR-SGD	1.5547	1.5700	1.5707	1.5787	1.5800
JPY-SGD	1.2197	1.2300	1.2321	1.2376	1.2400
GBP-SGD	1.7786	1.7800	1.7857	1.7900	1.7941
AUD-SGD	1.0000	1.0008	1.0031	1.0099	1.0100
Gold	1269.90	1273.92	1274.40	1300.00	1306.28
Silver	16.17	16.30	16.31	16.40	16.57
Crude	63.59	65.20	65.27	65.30	68.16

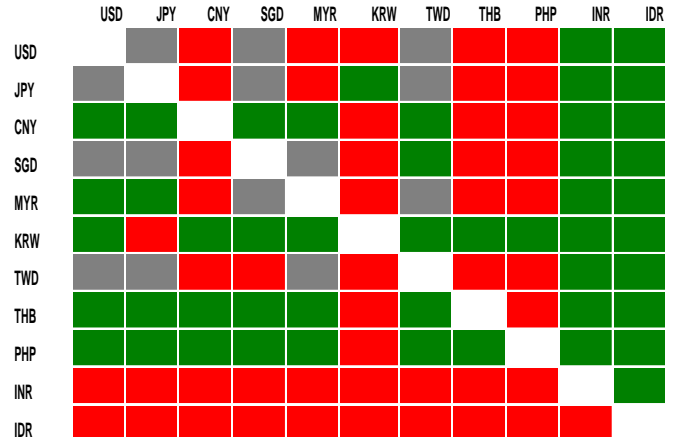
Source: OCBC Bank

G10 FX Heat Map



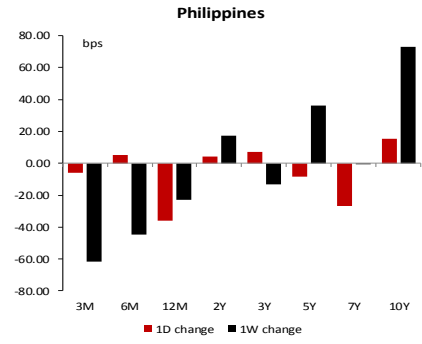
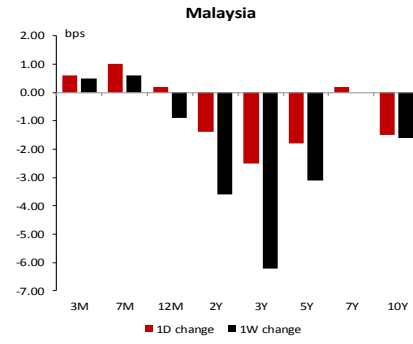
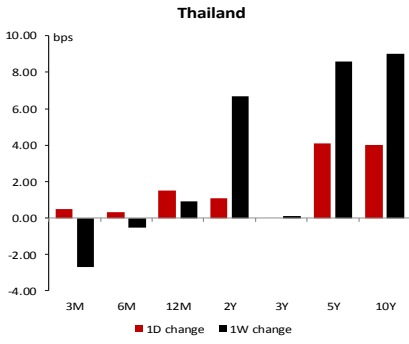
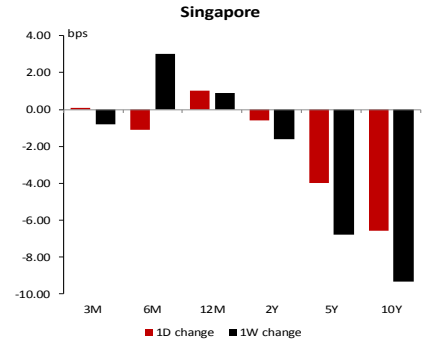
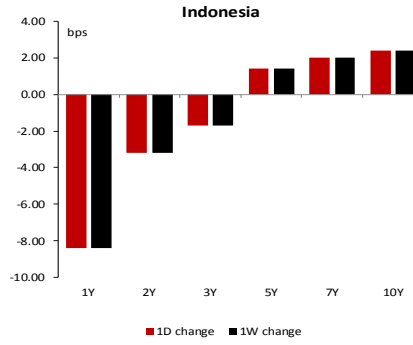
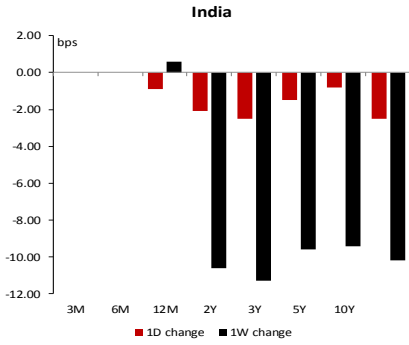
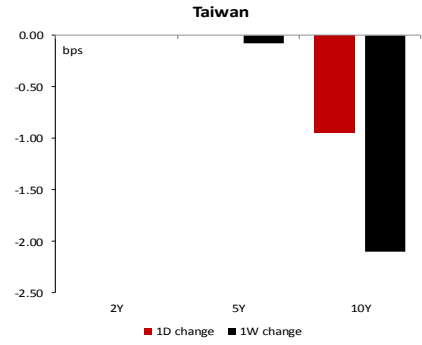
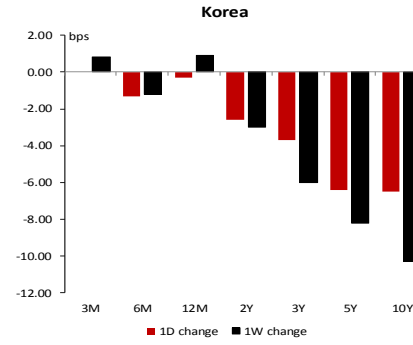
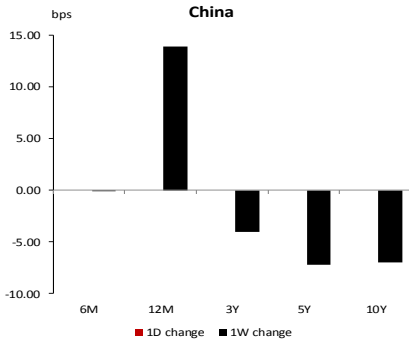
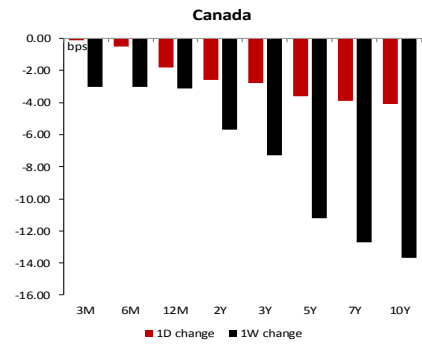
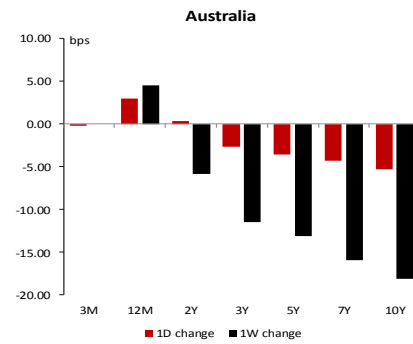
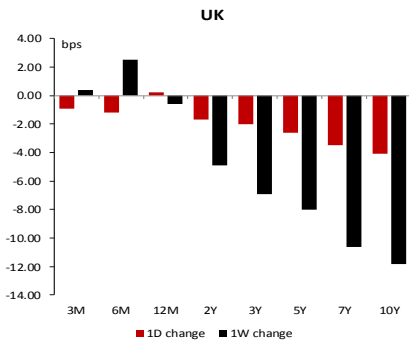
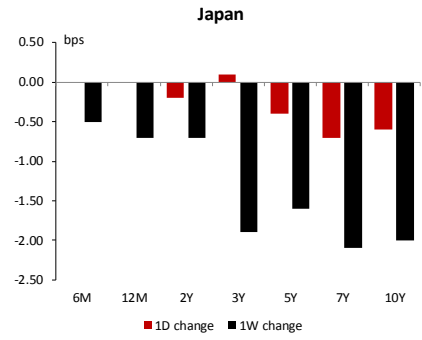
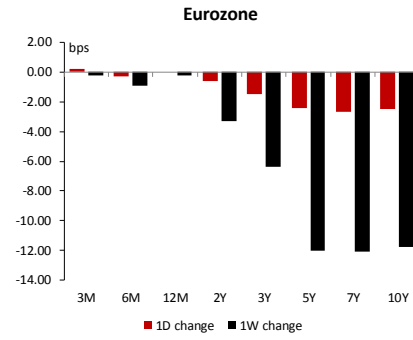
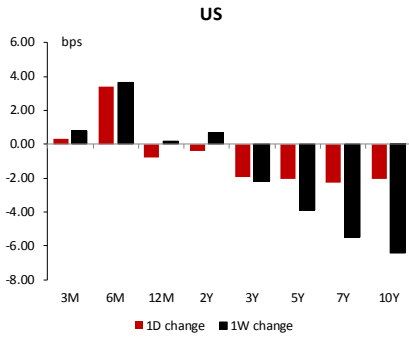
Source: OCBC Bank

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).
