

Monday, May 21, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite a softer UST curve (10y yield slipped to 3.0633%), the **DXY** traded briefly above 93.80 as the greenback clawed higher against most of its G10 peers on Friday. The EUR in particular remain weighed by Italian political uncertainty.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** ticked higher within Risk-Neutral territory on Friday amid negative EZ/US equities and we note that investor sentiment in the past week turned slightly more watchful. In the near term however, positive risk appetite may be bolstered slightly with ‘friendly’ US-Sino trade war headlines (USTR Munchin stated that the trade war is “on hold” as both sides dropped tariff threats and initiated a framework to address trade imbalances).
- **CFTC** data meanwhile showed large non-commercial accounts and asset manager accounts paring further their net implied short dollar positioning in aggregate in the latest week.
- However, leveraged account net dollar longs in aggregate increased significantly in the latest week. Specifically, leveraged EUR positioning flipped to a net short balance fairly aggressively in the latest week. On our end, the EUR may remain a notable casualty of potential dollar resilience. Meanwhile, net leveraged JPY longs picked up in the latest week but this may be partially attributed to a spot of risk aversion early last week.
- Elsewhere, net leveraged AUD positioning also flipped to a net short balance in the latest week while net leveraged NZD longs were halved. In addition, net leveraged CAD shorts also increased in the latest week. Pending further risk appetite gyrations, the cyclicals may be increasingly at risk of being sunk by the greenback.
- **Going ahead, the interplay between relative central bank postures this week may remain paramount for discerning major currency prospects.** To this end, companion central banks and their respective currencies may remain impaired relative to the USD in the absence of overt hawkish intent.
- This week’s calendar is expected to be heavy with potential Fed cues, with **FOMC minutes** on Wednesday but with a busy Fed appearance schedule starting with Bostic (1615 GMT), Harker (18:05 GMT), and Kashkari (1515 GMT) due today. Notably, Fed-chair Powell’s speech in Stockholm on Friday may be closely watched for further cues.

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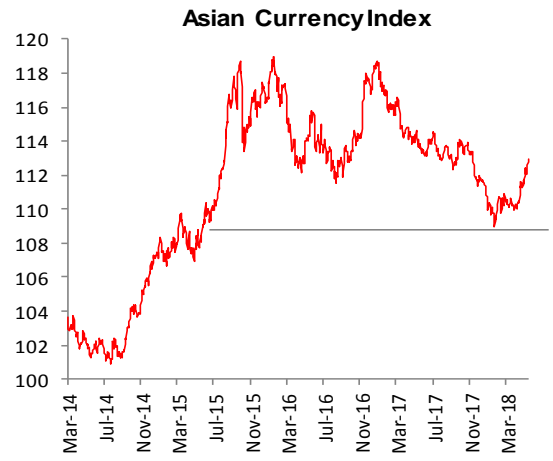
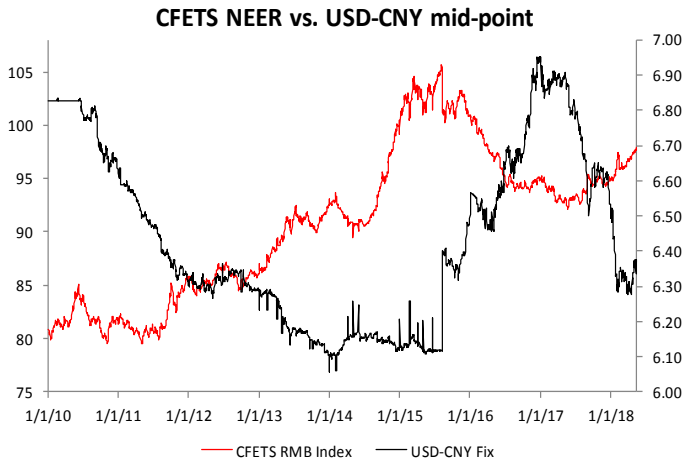
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- Elsewhere, ECB rhetoric may also figure prominently this week with Notwotny (0700 GMT) kicking off the week on Monday. More EBC-speak is expected on Tuesday, Thursday and Friday while **ECB meeting minutes** on Thursday may also garner particular interest. On the **BOE** front, **Carney** is penciled in for Tuesday and Thursday, while the **RBA's Lowe** is due on Wednesday. In Asia, the BOK is expected to remain static at 1.50% on Thursday.

Asian FX

- On the **EPFR** front, net implied equity flows for Asia (excl Japan, China) turned to a net inflow balance in the latest week but net bond outflows deepened in the latest week. This should not surprise given that the global re-pricing in recent weeks has been via the bond route. These developments have also been playing out from a broader perspective, with net equity flows into EM (emerging market) turning to a slight positive in the latest week while net bond flows for EM continued to show implied outflows (albeit moderating) in the latest week.
- Actual net portfolio flows in Asia continue to denote stable net inflows for South Korea and compressing net outflows for Taiwan but what is disconcerting is that the respective currency pairs are still being lifted by broader dollar dynamics. Net outflows for India meanwhile remain somewhat persistent, while net outflows for Indonesia and Thailand are looking to deepen.
- Overall, expect the **ACI (Asian Currency Index)** to stay supported on dips despite the perceived improvement in risk appetite levels stemming from the US-Sino headlines over the weekend.
- **Indonesia:** The rate hike last week and subsequent strong rhetoric from Bank Indonesia (BI) fails to provide support for the IDR. Global cues leading to rebalancing and stress in EM continues to dominate.
- **SGD NEER:** The SGD NEER is relatively stronger on at around +0.45% above its perceived parity (1.3491) with NEER-implied USD-SDG thresholds also higher from last Friday. We look for a +0.30% (1.3451) to +0.60% (1.3411) range intra-day. In the current environment, expect support to kick in towards the 200-day MA (1.3375), with a preference to angle for 1.3500 multi-session.
- **CFETS RMB Index:** The USD-CNY mid-point rose (largely within expectations an in line with unbiased models) to 6.3852 from 6.3763. This saw the CFETS RMB Index softening to 97.87 from 97.88.



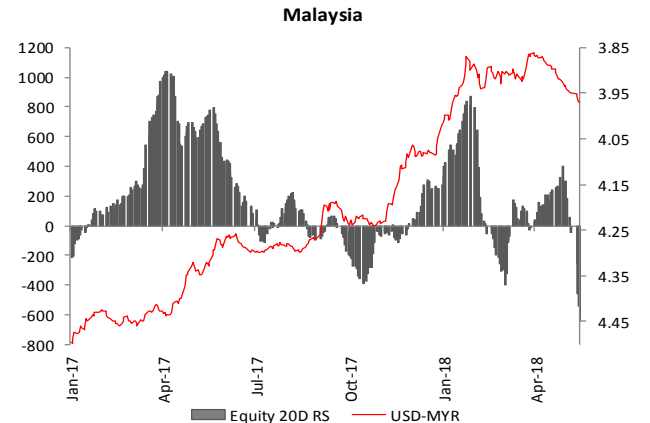
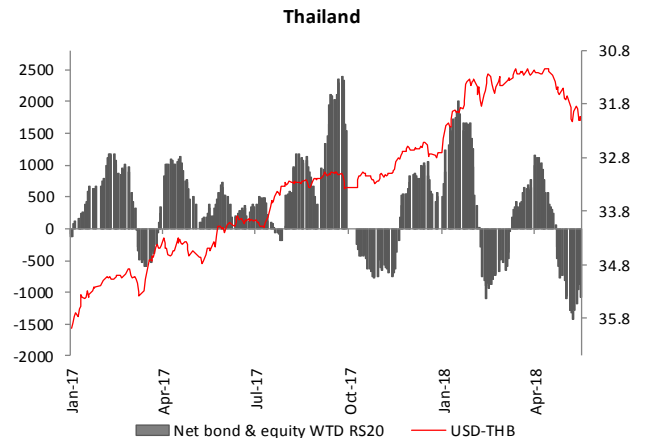
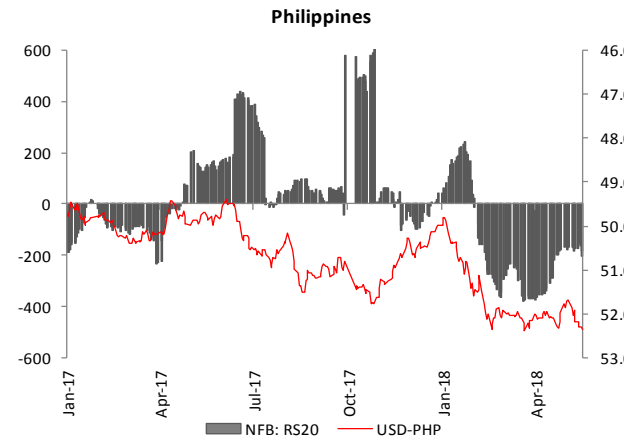
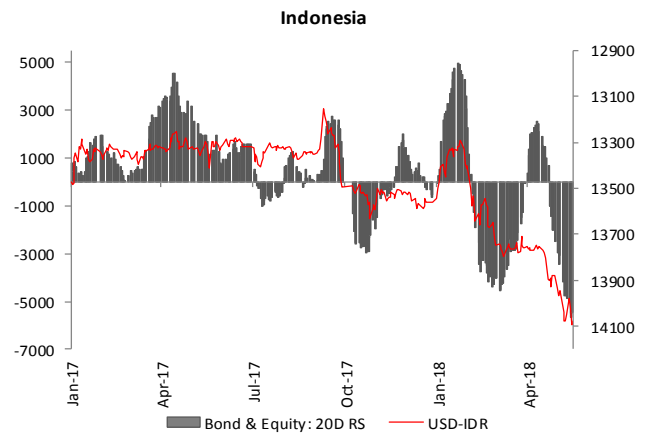
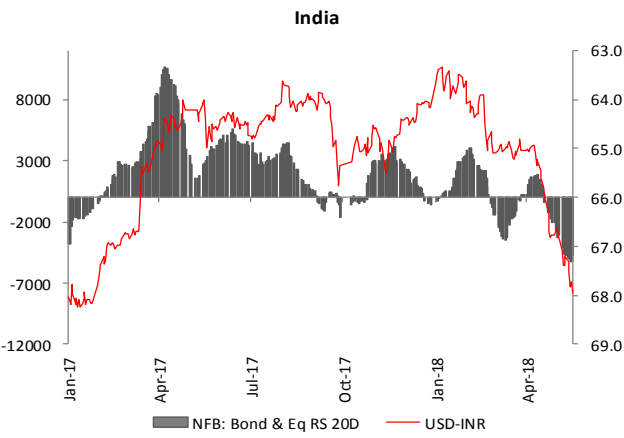
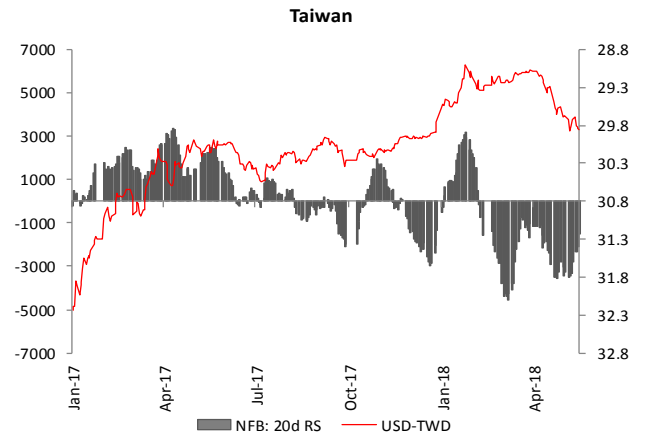
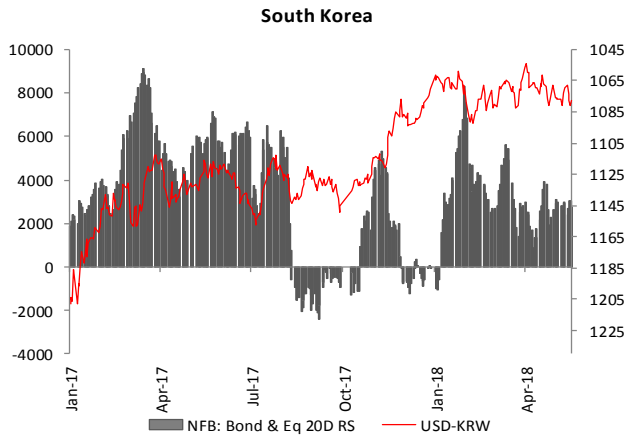
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, near term truce in US-Sino trade tensions following Liu He's visit to the US
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 rate hike providing limited support for the IDR despite promise of further tightening
USD-THB	↔/↑	BOT remains accommodative, keeping rates unchanged in the latest meeting; net portfolio outflow balance; unexpectedly strong 1Q18 GDP data provides support
USD-PHP	↔/↑	Net equity outflows moderating; BSP hiked policy rates as expected while signalling the possibility of further hikes

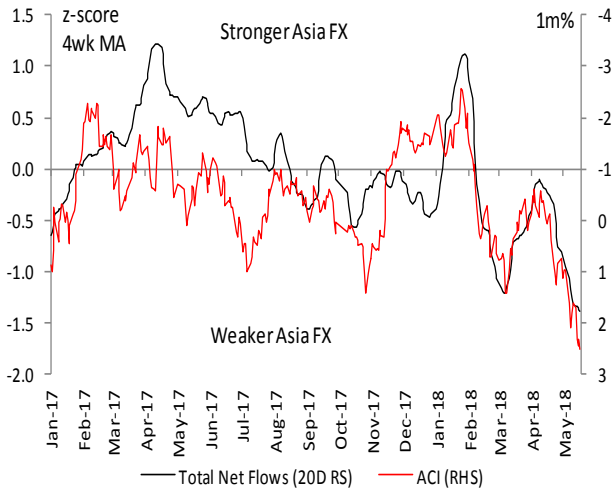
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



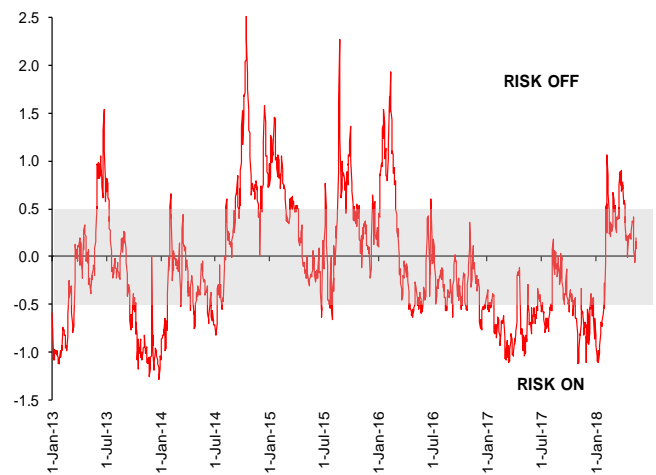
Source: CEIC, Bloomberg, OCBC Bank

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	0.466	0.944	0.573	0.652	0.760	0.831	0.750	-0.804	-0.384	0.892	-0.996
MYR	0.978	0.617	0.903	0.699	0.728	0.861	0.842	0.859	-0.888	-0.372	0.829	-0.984
SGD	0.944	0.520	0.888	0.598	0.617	0.724	0.811	0.766	-0.762	-0.317	0.891	-0.957
CNY	0.944	0.395	1.000	0.351	0.439	0.637	0.767	0.621	-0.609	-0.248	0.956	-0.929
THB	0.935	0.549	0.838	0.724	0.651	0.827	0.790	0.877	-0.853	-0.297	0.768	-0.950
TWD	0.922	0.541	0.860	0.578	0.555	0.712	0.848	0.763	-0.740	-0.285	0.825	-0.933
CHF	0.904	0.210	0.867	0.509	0.631	0.787	0.621	0.662	-0.805	-0.555	0.860	-0.904
CNH	0.892	0.318	0.956	0.273	0.390	0.541	0.713	0.522	-0.562	-0.235	1.000	-0.884
IDR	0.883	0.647	0.819	0.627	0.583	0.734	0.766	0.811	-0.719	-0.078	0.749	-0.898
INR	0.853	0.712	0.751	0.780	0.723	0.757	0.867	0.875	-0.764	-0.382	0.654	-0.868
JPY	0.831	0.735	0.767	0.481	0.554	0.471	1.000	0.600	-0.561	-0.196	0.713	-0.829
USGG10	0.466	1.000	0.395	0.531	0.372	0.309	0.735	0.552	-0.317	0.158	0.318	-0.496
KRW	0.326	0.406	0.445	-0.133	-0.325	-0.051	0.457	0.037	0.039	0.457	0.470	-0.319
CAD	0.311	-0.073	0.471	-0.351	-0.217	-0.225	0.232	-0.128	0.152	0.203	0.564	-0.278
PHP	-0.050	0.732	-0.184	0.414	0.116	-0.086	0.350	0.235	0.001	0.338	-0.166	0.012
AUD	-0.828	-0.267	-0.894	-0.259	-0.501	-0.465	-0.663	-0.406	0.546	0.352	-0.885	0.815
NZD	-0.927	-0.622	-0.828	-0.671	-0.760	-0.728	-0.880	-0.761	0.777	0.472	-0.784	0.934
GBP	-0.953	-0.280	-0.879	-0.553	-0.708	-0.812	-0.696	-0.719	0.834	0.532	-0.853	0.947
EUR	-0.996	-0.496	-0.929	-0.616	-0.671	-0.790	-0.829	-0.786	0.823	0.383	-0.884	1.000

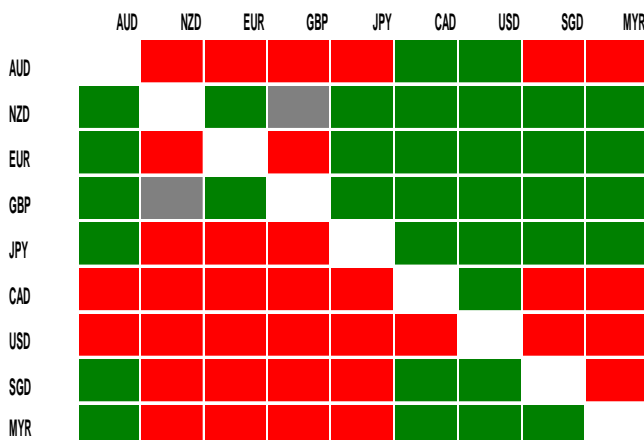
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1744	1.1750	1.1800	1.2021
GBP-USD	1.3400	1.3427	1.3436	1.3500	1.3564
AUD-USD	0.7450	0.7500	0.7526	0.7596	0.7600
NZD-USD	0.6841	0.6851	0.6899	0.6900	0.7129
USD-CAD	1.2800	1.2829	1.2871	1.2900	1.2927
USD-JPY	110.97	111.00	111.08	111.12	112.00
USD-SGD	1.3375	1.3400	1.3439	1.3490	1.3493
EUR-SGD	1.5755	1.5782	1.5791	1.5800	1.6072
JPY-SGD	1.2076	1.2089	1.2098	1.2100	1.2139
GBP-SGD	1.8000	1.8015	1.8057	1.8100	1.8134
AUD-SGD	1.0100	1.0105	1.0114	1.0115	1.0200
Gold	1284.00	1284.59	1288.50	1300.00	1305.68
Silver	16.11	16.30	16.39	16.40	16.49
Crude	66.70	71.70	71.77	71.80	72.30

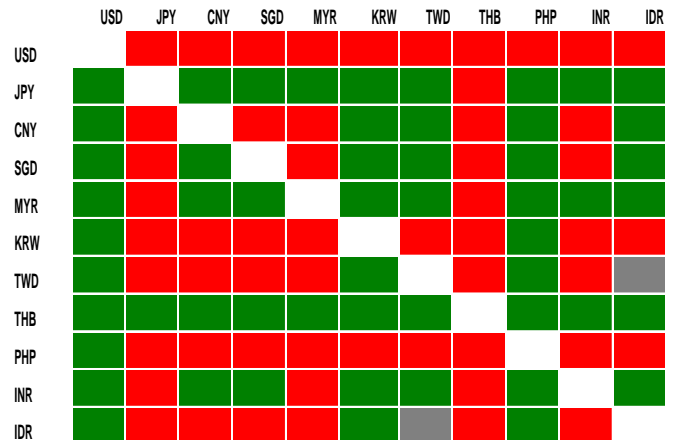
Source: OCBC Bank

G10 FX Heat Map



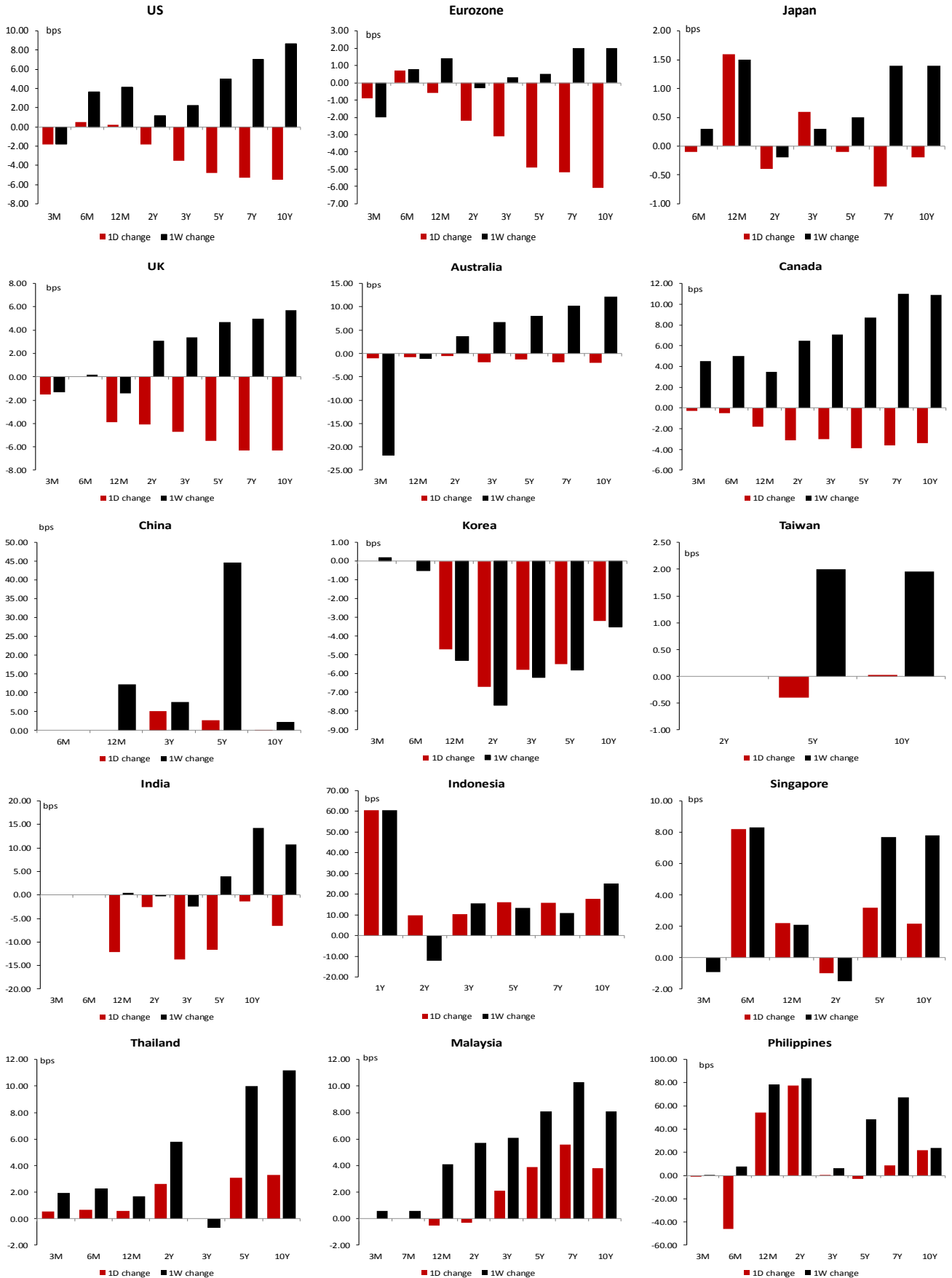
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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