

Friday, June 22, 2018

## FX Themes/Strategy/Trading Ideas

### US Dollar Index

- The US Dollar Index retreated from 11-month high as investors took profit following the weaker than expected Philadelphia Fed business outlook. Market will further assess whether the looming US-China trade war starts to weigh on US manufacturing outlook. With the return of growth divergence story, the currency pair is likely to be sensitive to any growth related data.
- On the other hand, the Fed Powell mentioned that “the labor market does not appear overly tight and the Fed should continue with a gradual pace of interest rate rises amid stronger economy.” The speech has reinforced market’s expectation for the hawkish stance held by the Fed. However, the unexpected hawkish message from the Bank of England monetary policy meeting, reminded the market that policy divergence between the Fed and other central banks may eventually narrow. We expect both growth divergence and policy divergence story to continue to dominate the currency market in the coming weeks.

### USD-CNH

- USDCNH topped the key resistance of 6.5 driven by corporate flows. With expectations that RMB may depreciate further amid the escalating trade tension, Mainland companies brought forward their purchase of foreign currencies. As such, the depreciation of CNH accelerated. However, big sell dollar flows at 4:30 pm yesterday brought the USDCNY closing price below 6.50, which was deemed as the signal from PBoC to slow down the pace of depreciation. Nevertheless, we think China is still comfortable with current mild depreciation as RMB is one of the best performers in global currency market year-to-date and RMB index remained high at 97.38 this morning though PBoC will watch out for the pace of movement closely.

### EUR-USD

- This week ECB President Draghi reiterated the central bank’s goal to keep rates unchanged at least through the summer of 2019. The dovish tone continued to weigh on the EUR. Meanwhile, political risk is looming over the Eurozone with the disputes over migration issue between German Chancellor Angela Merkel and Interior Minister Horst Seehofer though it did not have direct impact on EUR at the moment. The EUR may still be driven by central bank dynamic and Eurozone’s economic performance. **We refrain from being constructive on the EUR until we see firmer data-prints or a shift in market attention away from the interest rate trajectory in 2019.**

**GBP-USD**

- Bank of England has kept the main interest rate unchanged. Despite that, supported by the hawkish tone of meeting statement, the GBP has rebounded from 7-month low. Specifically, the central bank's chief economist Andy Haldane has joined hawkish committee members Michael Saunders and Ian McCafferty calling for a rate hike. Meanwhile, all members have agreed that the economic slowdown in 1Q has been transitory. Followed by the hawkish stance of BOE, the market is assessing a 60% probability of rate hike in August. In the near term, rate hike expectation, the progress of Brexit and the economic fundamentals may remain the major factors driving the performance of British pound.

**USD-JPY**

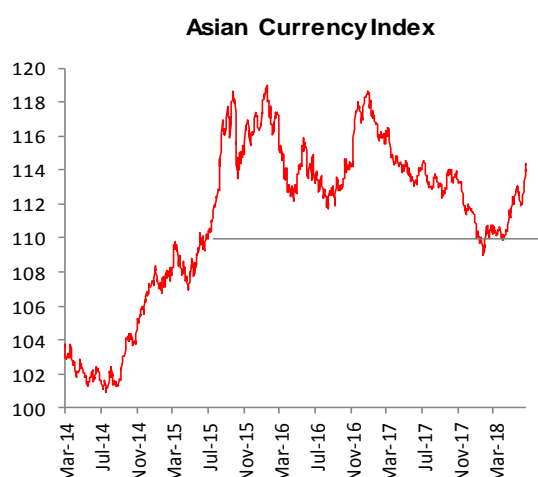
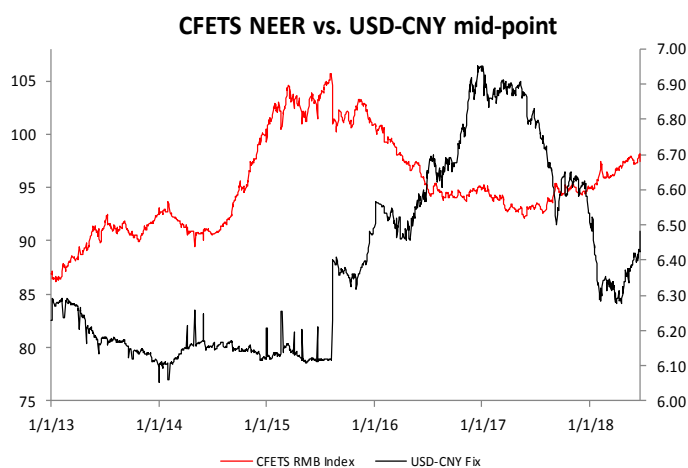
- With the risk aversion taken off the table, risk-on appetite dragged the yen down. Policy divergence between the BOJ and the Fed also put downward pressure on the yen. May's CPI grew 0.7% yoy, reflecting that the inflation remains far below the 2% target. Though US-Japan yield differential is unfavorable to the yen, we expect the risk-on / risk off dynamic will allow the yen oscillate in a tight range of 109-112 into the coming sessions.

**USD-CAD**

- CAD hit fresh 2018 lows due to US-Canada trade tension as well as the uncertainty about OPEC meeting this Friday. US President Donald Trump has criticized that the existing NAFTA has impaired the interests of US. On the oil market front, it is reported that Saudi Arabia will likely propose an increase of 600,000 barrels per day of oil production into 2H18, which is lower than the 2.8 million barrels a day of cut that has been implemented since 2016. WTI hovered around US\$65 per barrel pending for more details from Friday's OPEC meeting. CAD could stay under pressure for some time until we hear positive news about NAFTA talk or from the OPEC meeting.

**AUD-USD**

- AUD remained under pressure due to policy divergence between the RBA and the Fed and spillover effects from US-China trade tension. RBA's June meeting minutes reiterated a slightly dovish stance. We retain a bias to fade any rallies on the AUD. Watch out for the talk if any between US and China in the coming weeks. Should the trade tension escalate, AUD may take a harder hit given Australian economy's heavy reliance on exports to China.



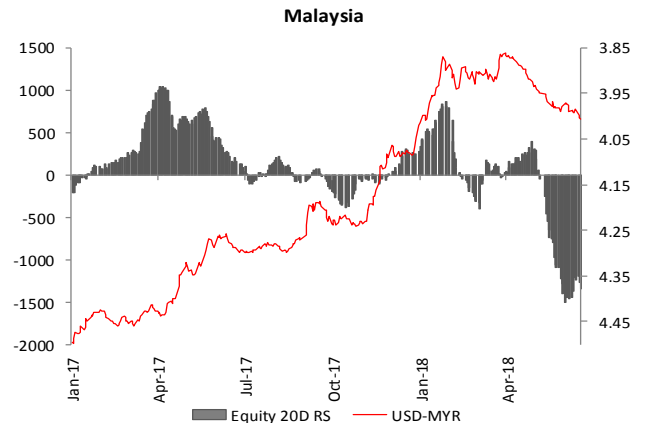
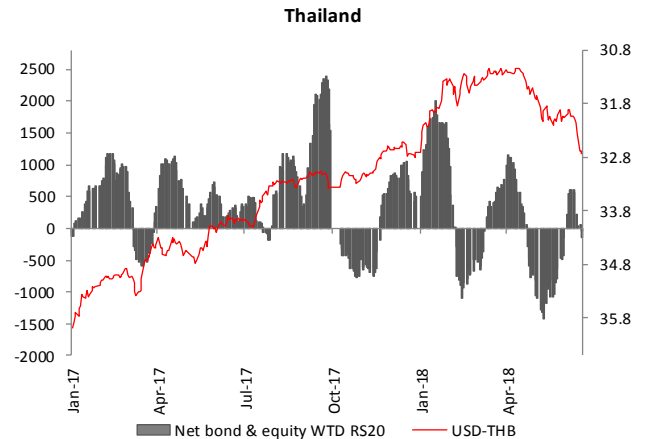
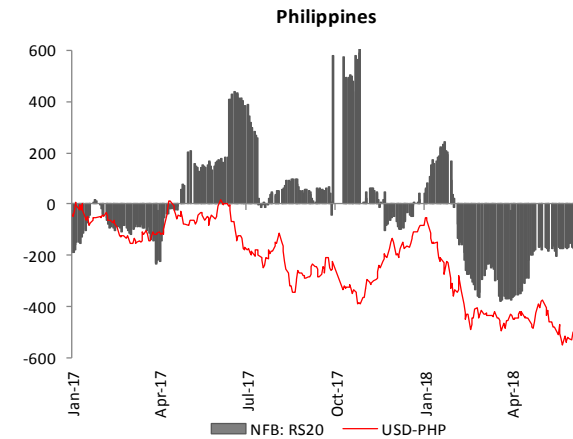
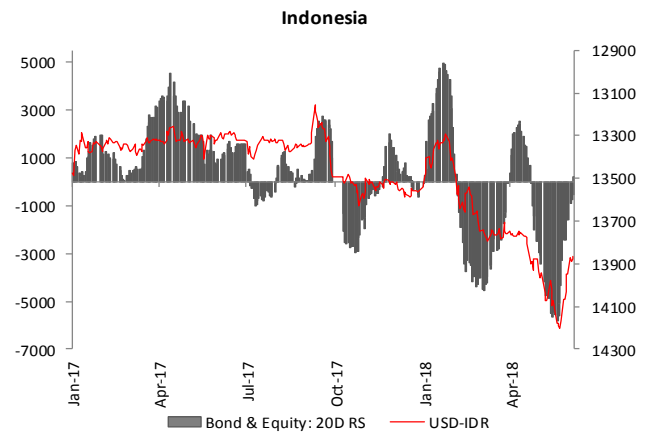
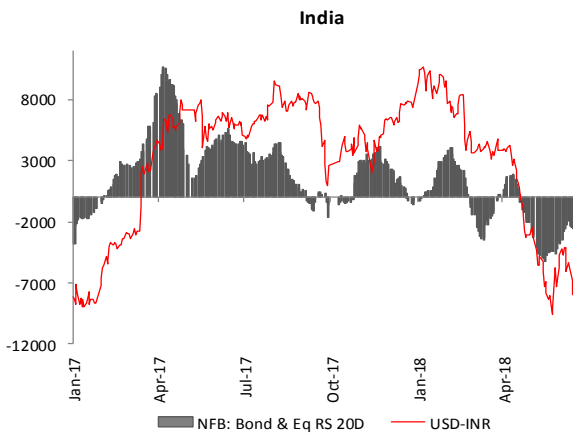
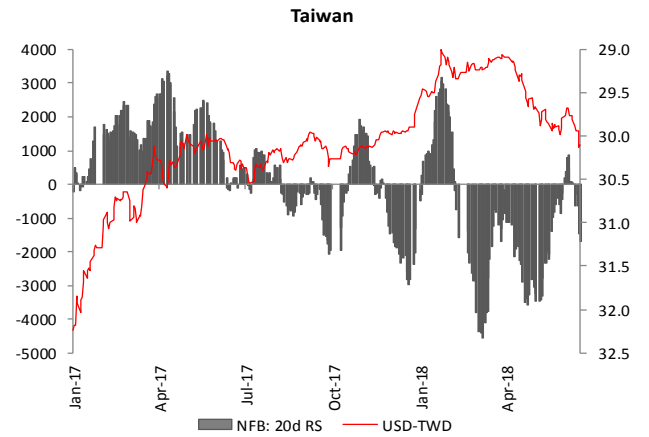
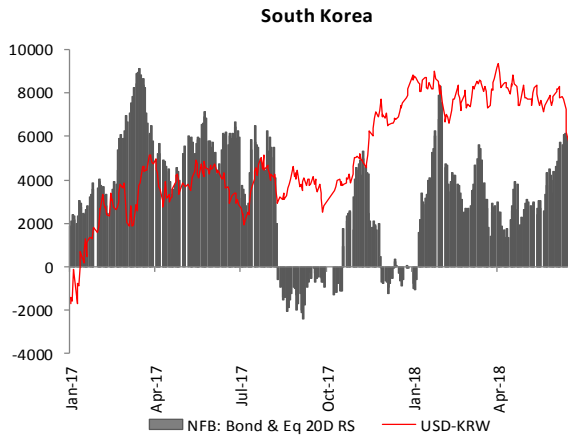
Source: OCBC Bank, Bloomberg

### 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

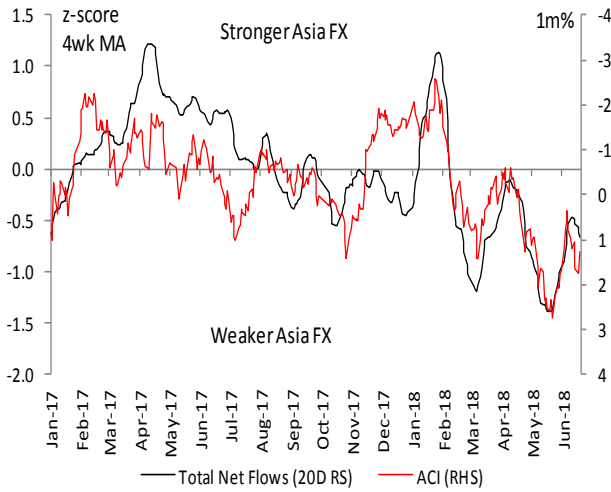
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



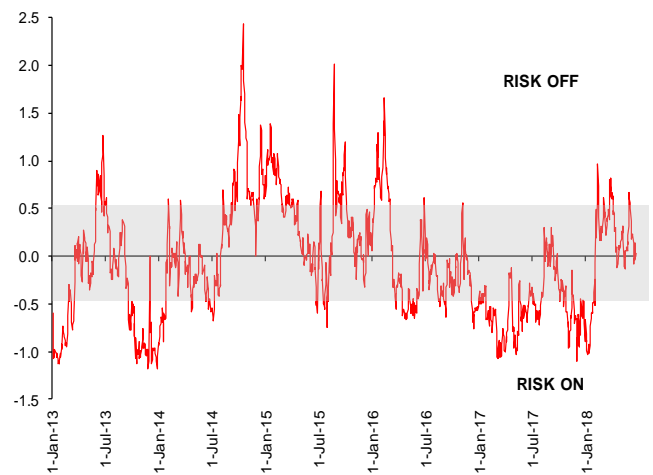
Source: CEIC, Bloomberg, OCBC Bank

**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	-0.426	0.732	-0.095	-0.733	-0.531	0.221	-0.174	0.303	0.071	0.810	-0.961
SGD	0.915	-0.269	0.857	0.010	-0.796	-0.587	0.288	-0.110	0.210	0.063	0.909	-0.808
CHF	0.819	-0.029	0.426	-0.004	-0.602	-0.240	0.346	0.218	0.017	-0.316	0.478	-0.801
CNH	0.810	-0.359	0.977	0.131	-0.733	-0.795	0.285	-0.411	0.247	0.317	1.000	-0.667
CAD	0.799	-0.209	0.882	0.338	-0.560	-0.876	0.478	-0.474	0.024	0.235	0.945	-0.620
TWD	0.792	-0.366	0.827	-0.228	-0.932	-0.385	0.011	0.092	0.479	0.186	0.823	-0.729
KRW	0.782	-0.102	0.901	0.249	-0.755	-0.703	0.471	-0.238	0.032	0.094	0.917	-0.608
THB	0.766	-0.242	0.933	0.226	-0.732	-0.730	0.443	-0.216	0.196	0.216	0.939	-0.623
CNY	0.732	-0.359	1.000	0.075	-0.778	-0.771	0.209	-0.412	0.293	0.345	0.977	-0.592
MYR	0.661	-0.263	0.824	0.271	-0.666	-0.618	0.347	-0.164	0.294	0.438	0.871	-0.519
PHP	0.646	-0.030	0.739	0.457	-0.547	-0.732	0.609	-0.272	-0.027	0.196	0.800	-0.457
INR	0.535	0.035	0.384	-0.104	-0.566	-0.058	0.179	0.496	0.108	-0.230	0.425	-0.479
IDR	0.474	0.293	0.082	-0.433	-0.511	0.485	0.018	0.803	0.156	-0.453	0.101	-0.520
JPY	0.221	0.569	0.209	0.845	0.117	-0.585	1.000	-0.298	-0.714	-0.315	0.285	-0.011
USGG10	-0.426	1.000	-0.359	0.594	0.450	0.077	0.569	0.214	-0.864	-0.671	-0.359	0.541
NZD	-0.801	0.267	-0.582	0.338	0.735	0.179	-0.005	-0.246	-0.369	0.060	-0.678	0.780
AUD	-0.902	0.289	-0.843	-0.080	0.770	0.603	-0.327	0.128	-0.204	-0.141	-0.907	0.788
GBP	-0.939	0.478	-0.783	0.165	0.836	0.499	-0.115	0.135	-0.415	-0.171	-0.806	0.894
EUR	-0.961	0.541	-0.592	0.305	0.720	0.326	-0.011	0.052	-0.452	-0.078	-0.667	1.000

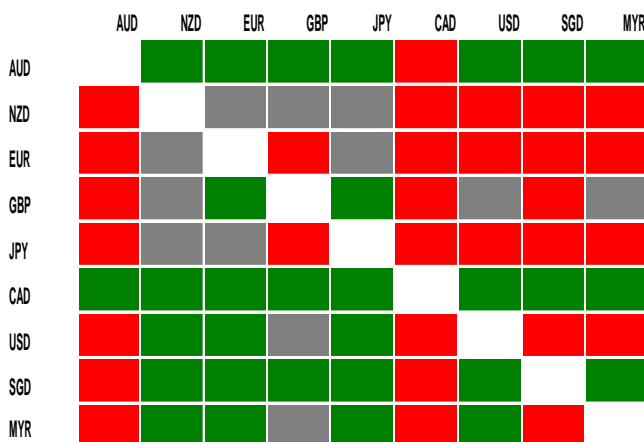
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1509	1.1600	1.1610	1.1700	1.1835
GBP-USD	1.3160	1.3200	1.3252	1.3300	1.3459
AUD-USD	0.7334	0.7346	0.7382	0.7400	0.7553
NZD-USD	0.6826	0.6856	0.6874	0.6900	0.7010
USD-CAD	1.2912	1.3300	1.3311	1.3335	1.3351
USD-JPY	109.00	109.52	109.99	110.00	110.24
USD-SGD	1.3364	1.3500	1.3580	1.3600	1.3612
EUR-SGD	1.5545	1.5700	1.5766	1.5800	1.5810
JPY-SGD	1.2202	1.2300	1.2347	1.2400	1.2401
GBP-SGD	1.7900	1.7983	1.7996	1.8000	1.8087
AUD-SGD	0.9981	1.0000	1.0024	1.0092	1.0100
Gold	1200.00	1260.00	1267.20	1269.00	1300.00
Silver	16.17	16.30	16.33	16.40	16.56
Crude	64.27	65.80	65.85	65.90	67.93

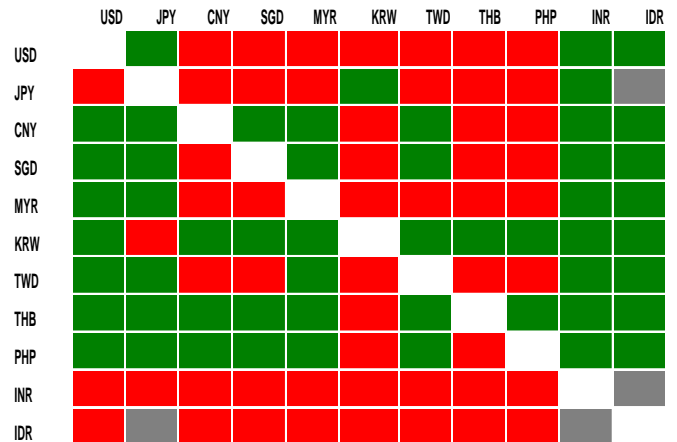
Source: OCBC Bank

**G10 FX Heat Map**



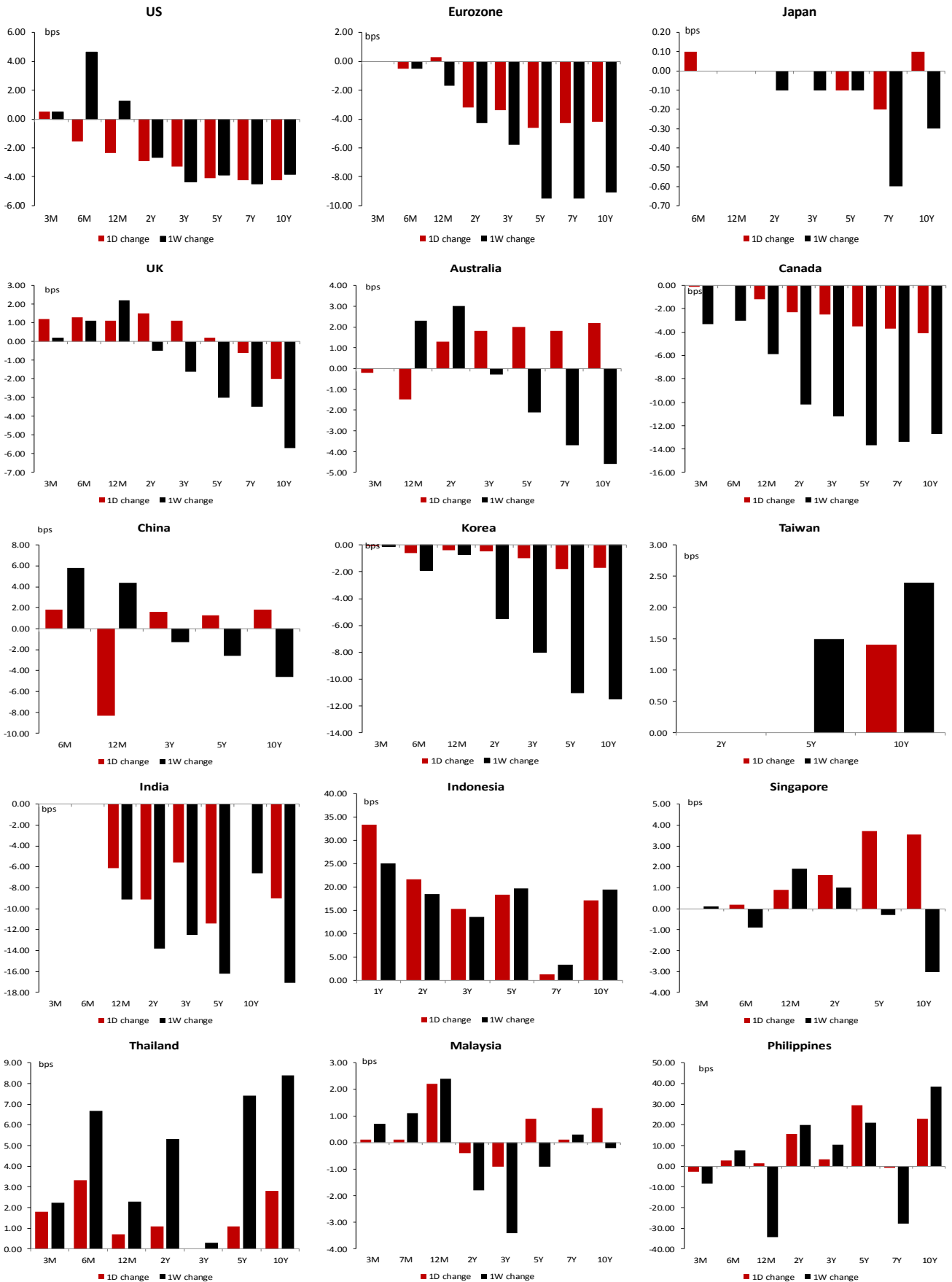
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



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