

Monday, July 23, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

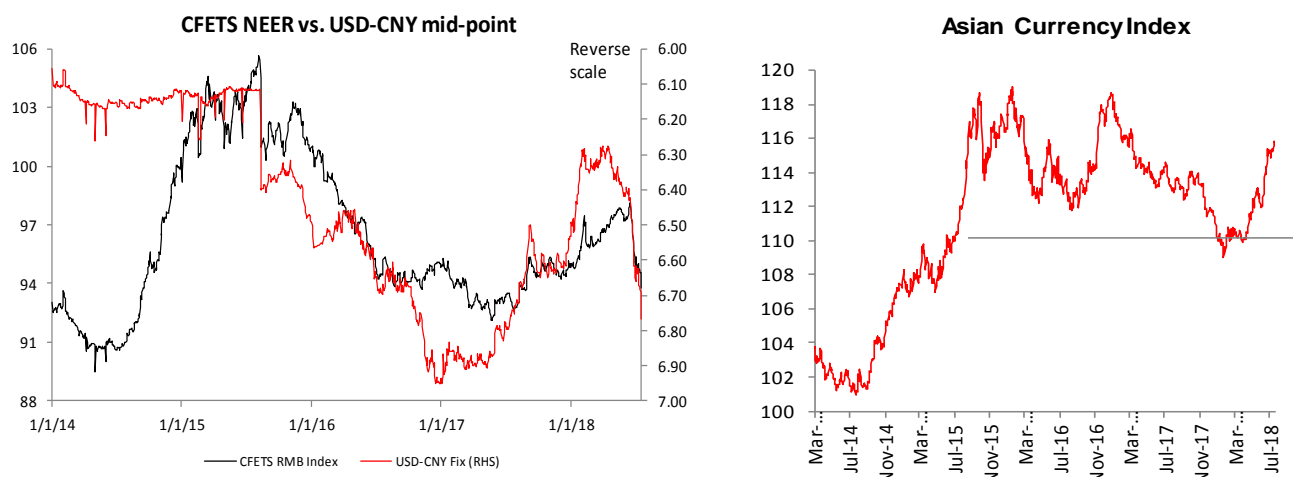
- The broad USD continues to be negatively pressured by President Trump's tweets on Friday. The DXY index sank to the bottom half of the recent range, closing near the day's low at 94.48 as USD long positions were pared.
- The 94.00 and range low at 93.75 may attract the DXY index in the coming sessions, especially if similar comments from Trump are forthcoming. Nevertheless, **for this to morph into a structural USD downtrend, we will need to see a consistent stream of comments along the same vein, and for the comments to be translated into more concrete policy action.** We do not see this as the baseline scenario. Expect the recent ranges for the broad USD to hold.
- Note that there is no follow-through by Mnuchin in the G20 meeting over the weekend. Instead he mentioned that Trump is not trying to intervene in the FX market. **Previous episodes of US officials commenting on the USD, Mnuchin (Jan 2018) and Trump (Apr 2018), did not see a sustained impact beyond a few sessions.** From a structural perspective, the Fed's stance is unlikely to change in view of Trump's comments. That much was alluded to by Bullard on Friday.
- Nevertheless, **if the USD continues to trade on an offered tone in the coming sessions, expect the JPY to be a main beneficiary.** Apart from broad USD weakness and renewed focus on trade tensions, the developments at the Bank of Japan (BOJ) may also be JPY-supportive. Note unconfirmed reports that the BOJ is considering tweaks to the yield curve control programme to allow long-end yields to inch higher. This may be interpreted as a departure, albeit a very slight one, from excessive monetary accommodation. The BOJ meeting on 31 July may now be "live".
- On the **CFTC** front, leveraged accounts added further to their net implied USD long positions (incl. JPY) in the latest week. Excluding the JPY, net implied USD long positions for the leveraged accounts are essentially static. The asset managers took the opposite stance, adding to their implied USD shorts. The dichotomy between the short and long term players have re-emerged, after being aligned for the past four sessions. As previously cautioned, the implied USD long positions amongst leveraged accounts are at extended levels, the tweets from Trump may be a catalyst for some reduction in implied USD longs.
- The central bank calendar this week will be headed by the ECB meeting (Thu). On the data front, watch for Eurozone consumer confidence (1400 GMT), Eurozone and US advance PMI (Tue), US GDP (Fri) and Australian CPI (Wed).

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Asian FX

- In Asia, the main concern will be the interpretation of Trump's tweets in the context of the ongoing trade war. **Is Trump expanding into a new currency front in the trade war? This may be an inappropriate conclusion at this stage. For this to be the appropriate conclusion, we will need to see concrete policy action on the currency front.**
- Overall impact on risk sentiments appears somewhat diffused at this stage. The **FX Sentiment Index (FXSI)** is largely static on Friday, staying within the Risk Neutral territory. Nevertheless, keep a close look on recovering G7 and EM FX vols. They may add a negative impact on risk sentiments going forward.
- With Trump's comments, the USD-CNY may have seen a near term top after surging past 6.8000 at Friday's opening. We note some possible intervention through a "major Chinese bank" on Friday, keeping the lid on the spot movements.
- **Early week, expect the Asian Currency Index (ACI) edge lower, tracking the USD-CNY movements. Nevertheless, the impact of the Trump comments on USD-Asia should be more diffused compared to the G7 currencies, with the spectre of trade war still in the background and USD-CNY still likely on an upward trajectory. Expect any dips in the ACI to be relatively shallow.**
- In terms of **Asian portfolio flows**, we see a similar trend of equity outflow compression in South Korea and Taiwan, although the scale is more significant in Taiwan. In South Korea, the improvement in equities was outweighed by the decline in bond inflows, resulting in a decline in overall inflow momentum. In South Asia, outflow compression in India is continuing at a steady pace, and we are near neutral at the moment. We see similar outflow compression in Philippines and Malaysia.
- Elsewhere, **EPFR** data shows an increase in implied bond inflows into the Asia ex JP and CN region, continuing a trend of improvement over the past three weeks. Nevertheless, the equities front continues to be plagued by implied outflows in the latest reading.
- **SGD NEER:** The SGD NEER is firmer this morning, standing at around +0.97% above its perceived parity level (1.3748). The NEER-implied USD-SGD thresholds were weaker overnight. Intra-day range may be marked by the +0.80% (1.3639) and +1.20% (1.3585) thresholds. Expect the USD-SGD to remain soggy on the weaker USD in the coming sessions. CPI prints later (0500 GMT).
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, by less than our expectations, at 6.7593 compared to 6.7671 on Friday. The CFETS RMB Index eased further to 93.38, compared to 93.78 previously. Note that the midpoint fix is higher than market consensus. This may suggest little interest in reining in the USD-CNY to aggressively, at least through the official fix.



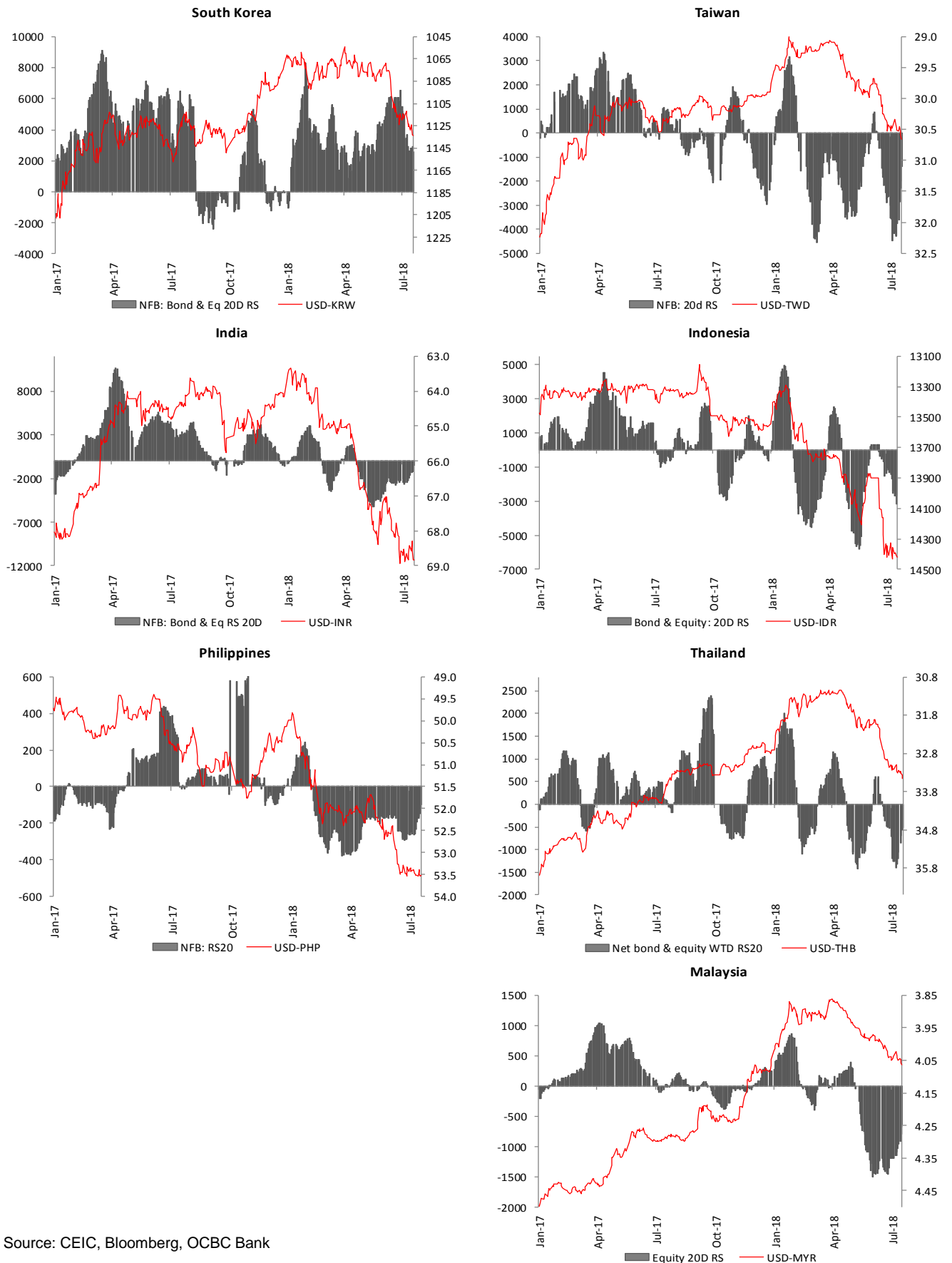
Source: OCBC Bank, Bloomberg

Short term Asian FX views

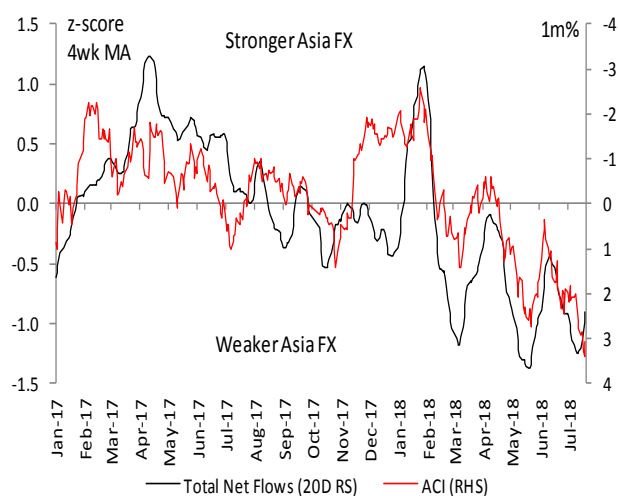
Currency	Bias	Rationale
USD-CNH	↑	Renewed pressure on the RMB complex as the PBoC undertakes further easing; the USD-CNH and USD-CNY both near 6.8000 and the CFETS RMB Index closing on 93.00 with little evidence of PBoC support; may not be any "line in the sand" in the near term
USD-KRW	↑	Portfolio inflows 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; persistent outflow momentum has been curtailed
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 matrices; equity outflows easing
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, with the BI remaining committed to defend the currency
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
USD-PHP	↔/↑	June inflation print exceeded expectations, surprising even the BSP; rate hike pace may accelerate with inflation still not within control; watch Duterte's State of the Union address

Source: OCBC Bank

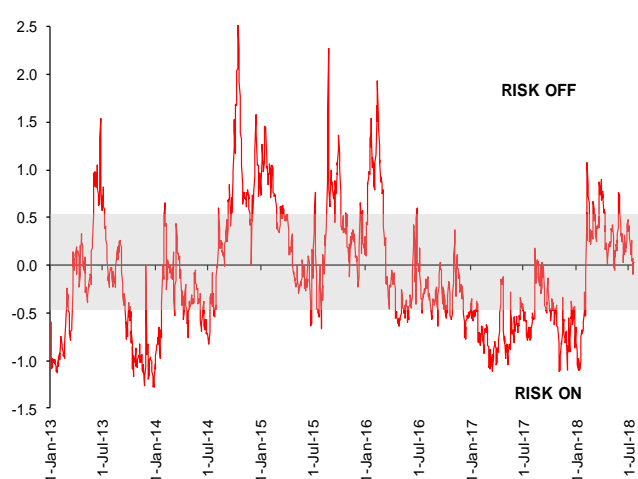
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

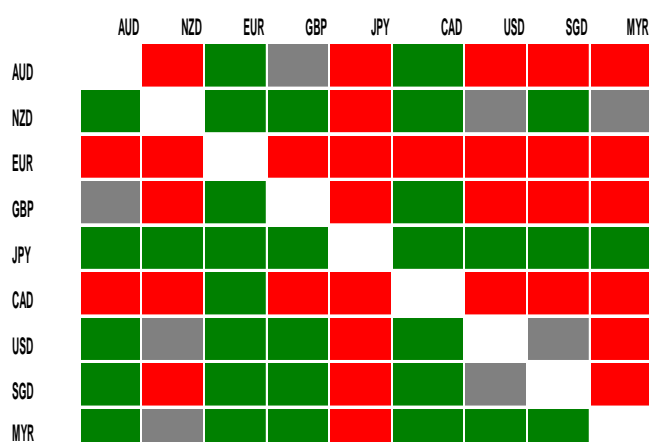
	DXY	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.182	0.045	-0.016	0.096	-0.326	0.273	-0.373	0.105	-0.044	0.115	-0.875
CHF	0.668	-0.216	0.524	0.537	-0.153	-0.584	0.784	-0.184	-0.422	-0.473	0.557	-0.324
CAD	0.638	0.520	-0.522	-0.343	0.494	-0.090	-0.313	-0.581	0.389	0.069	-0.451	-0.755
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

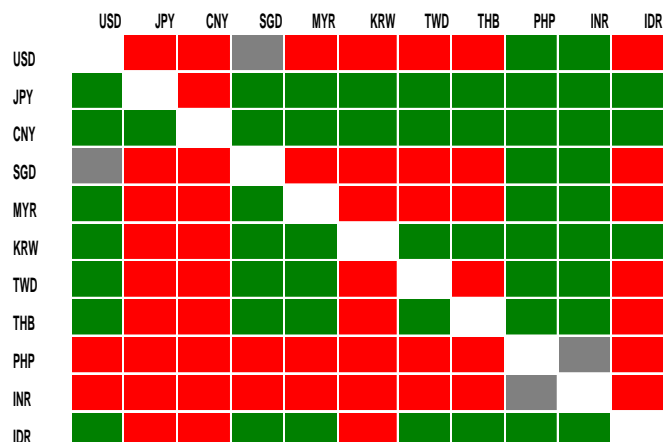
Technical support and resistance levels

	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

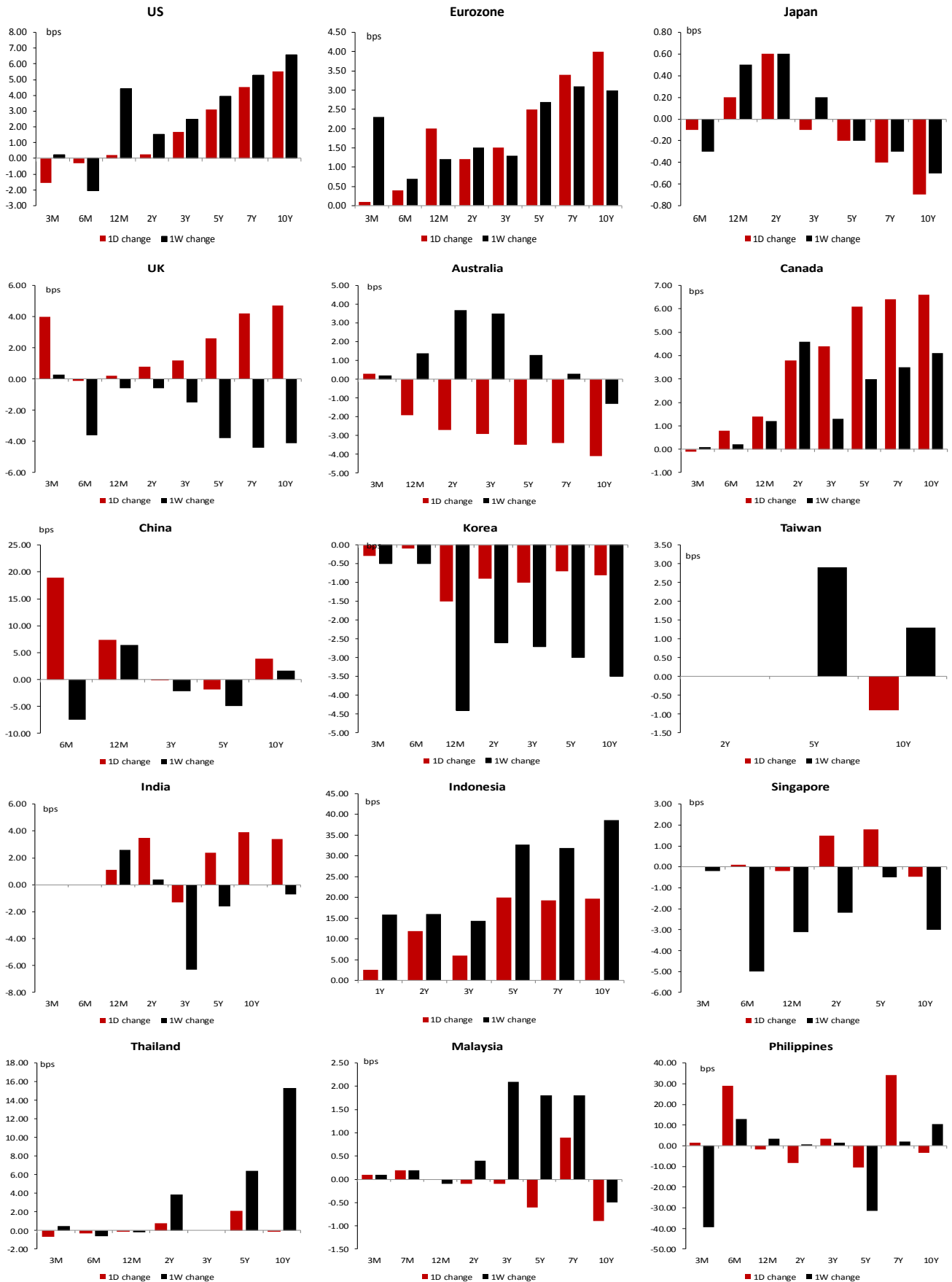
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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