

Wednesday, May 23, 2018

FX Themes/Strategy/Trading Ideas

- Despite slightly soggy UST yields, the greenback managed to recover from intra-day lows to end mildly higher against most of the majors on Tuesday, with the DXY dipping temporarily below 93.50 before ending flat to a touch softer.
- GBP-USD found short term support following initial comments from the BOE's Vlieghe but this proved short-lived amid the Brexit overhang. Meanwhile, the CAD underperformed across G10 space with NAFTA uncertainty still lingering in the background.
- As noted previously, the bar remains fairly high for the majors to stage a comeback against the broad dollar in the current environment, and the FOMC minutes may offer further clarity. **In the interim, the negative vibes from Italian political uncertainty may keep the EUR relatively vulnerable.**
- Global trade tensions meanwhile may remain in abeyance (for now) with China announcing a reduction in auto import tariffs. Note however the less than encouraging comments from Trump with respect to US-Sino trade talks, with the US President also indicating that the North Korean Summit may be delayed. A report also indicated that the US administration is also considering a reduction of EU steel and aluminum exports to the US by about 10%. Overall, negative US equities (but firmer EM stocks) saw the **FXSI (FX Sentiment Index)** still managed to tick lower within Risk-Neutral territory but expect underlying caution to prevail.
- For today, expect the primary focus to be on the FOMC minutes (1800 GMT) with the Fed's Kashkari also due at 1815 GMT. Elsewhere, the RBA's Lowe speaks at 0800 GMT. **On the latter, with sentiment towards the cyclicals stabilizing of late, we'd expect short term AUD shorts to cease and desist.**

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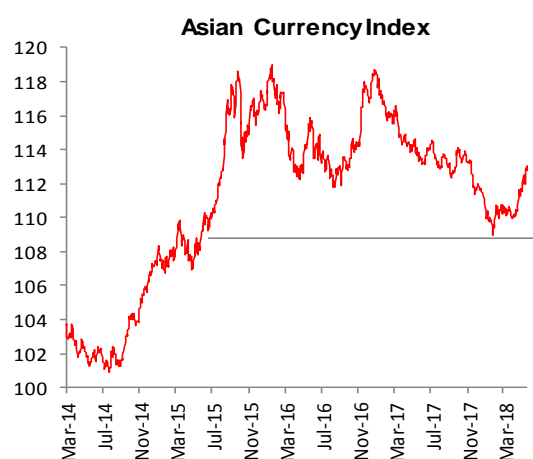
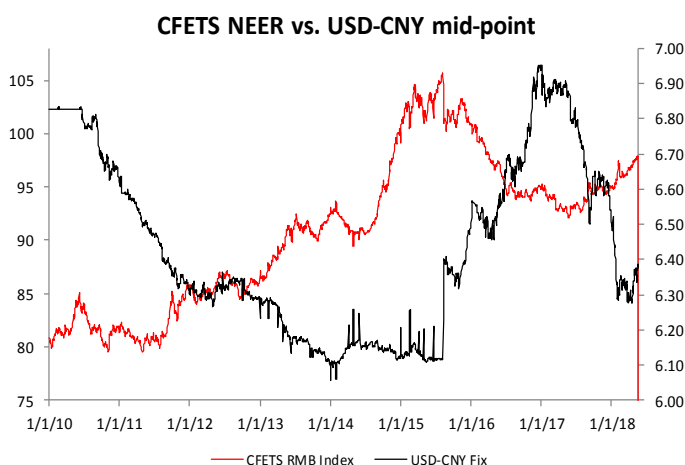
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Asian FX

- Continued improvement in risk sentiments following the easing of Sino-US trade tensions should provide some support for Asian currencies. Nevertheless, expect the **ACI (Asian Currency Index)** to hold relatively steady intra-day ahead of further broad dollar cues from the FOMC minutes.
- In terms of **Asian net portfolio flows**, the situation continues to improve for North Asia, with inflows for South Korea remaining steady and equity outflows for Taiwan continuing to compress. Note however, that the KRW and TWD are showing limited sensitivity to the improvement in flow environment. In South Asia, note some improvement in net outflows for India, while net outflows are widening again in Thailand and Philippines. Indonesia and Malaysia continue to experience heavy outflow pressures. **In aggregate, short term flows for Asia remain less than constructive for Asian FX.**
- **South Korea:** We expect the **Bank of Korea (BOK)** to hold rates unchanged in their MPC meeting on Thursday. Economic fundamentals and real interest rate analysis suggest little impetus for the BOK to hike. Moreover, the BOK governor had sounded less optimistic on the economy in his recent comments. The widening rate differential with the Fed may be a cause to hike, but we think this should come later in the year.
- **SGD NEER:** The SGD NEER is softer this morning, with the basket at around +0.50% above its perceived parity (1.3476). NEER-implied USD-SGD thresholds are largely static compared to Tuesday, and expect the basket to be bound within the +0.40% (1.3422) to +0.70% (1.3382) range intra-day.
- **CFETS RMB Index:** The USD-CNY mid-point fell (in line with expectations) to 6.3773 from 6.3799 on Tuesday. This resulted in the CFETS RMB Index declining to 97.79 from 97.82 yesterday.



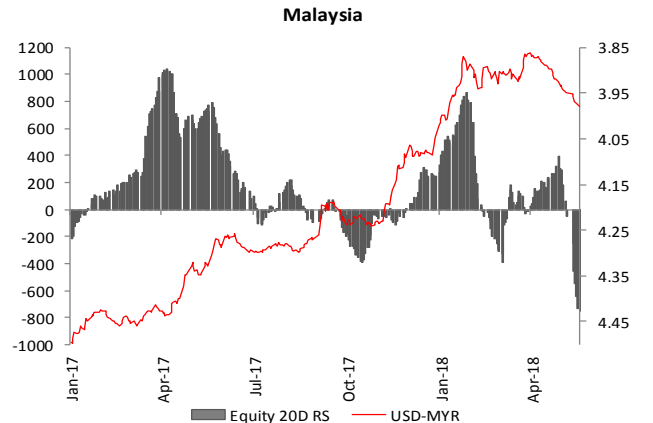
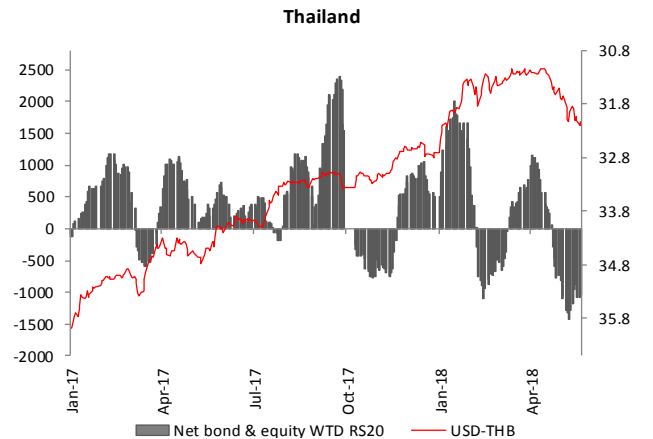
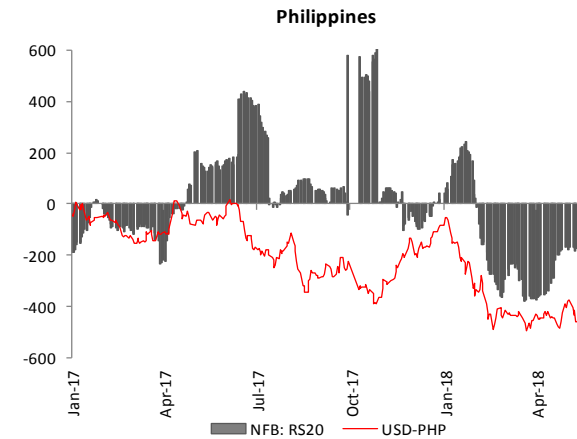
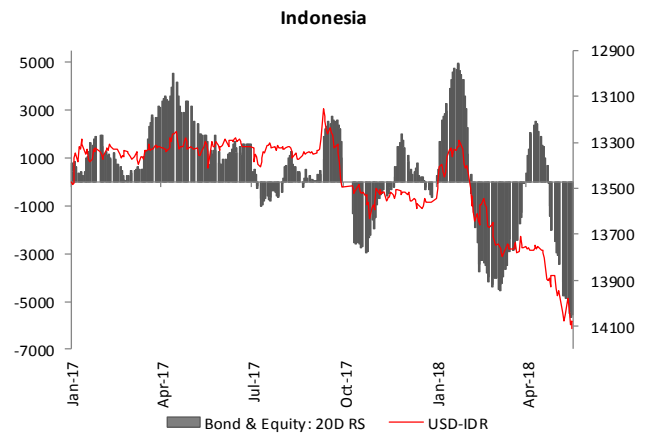
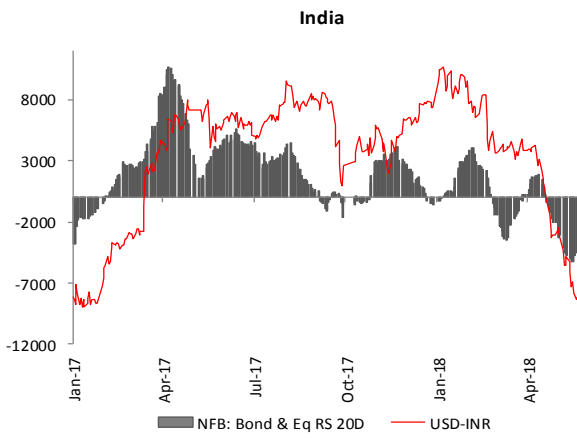
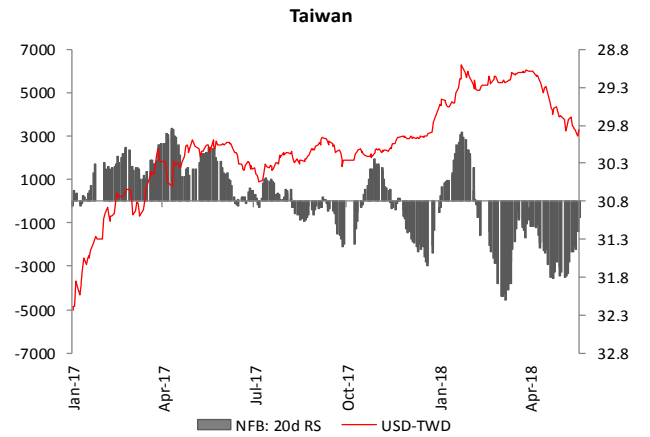
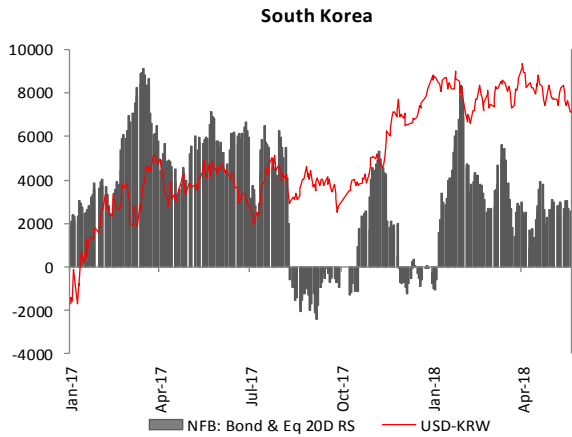
Source: OCBC Bank, Bloomberg

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 Sino-US trade tensions following Liu He's visit to the US, USD-CNY midpoints still habitually above neutral models
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 compressing significantly, 1Q current account surplus shrinks
USD-INR	↑	Firmer than expected WPI and CPI data puts pressure on RBI to hike early; net portfolio outflows attempting to moderate; higher crude imposing drag on INR and govies; risk premia from negative political developments in Karnataka with possible implications on fiscal stance going forward
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, sustained net equity outflows following election outcome
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 outflows still significant; unexpectedly strong 1Q18 GDP underpins back-end in govie yields
USD-PHP	↔/↑	Net equity outflows moderating; BSP hiked policy rates as expected while signalling the possibility of further hikes

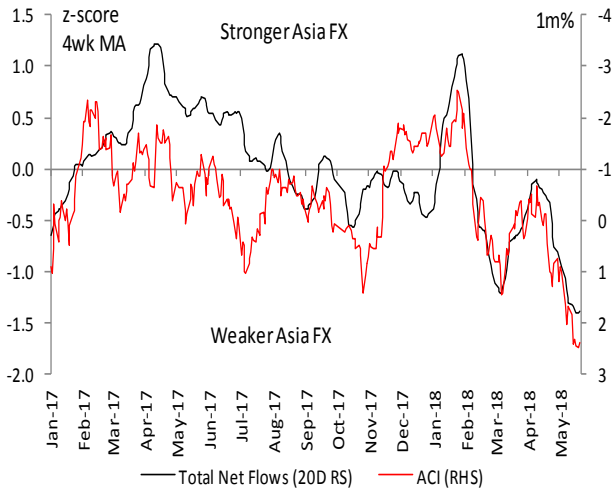
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



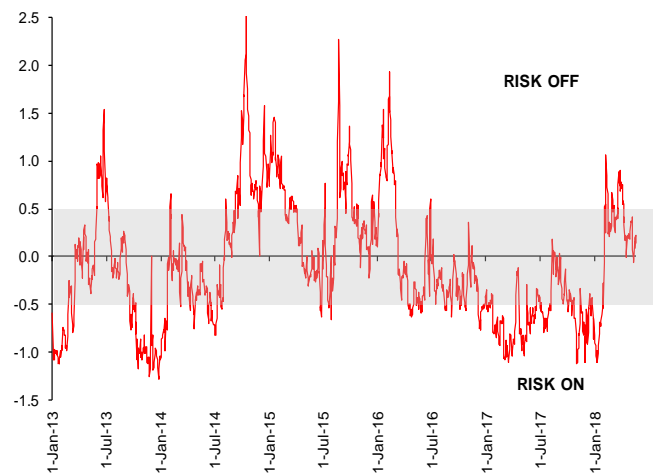
Source: CEIC, Bloomberg, OCBC Bank

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	0.533	0.929	0.682	0.682	0.838	0.791	0.791	-0.824	0.033	0.843	-0.996
MYR	0.979	0.659	0.898	0.802	0.758	0.893	0.863	0.898	-0.904	0.097	0.778	-0.980
THB	0.930	0.599	0.825	0.800	0.670	0.858	0.786	0.904	-0.858	0.097	0.710	-0.940
CNY	0.929	0.434	1.000	0.444	0.467	0.699	0.712	0.662	-0.608	0.099	0.924	-0.912
TWD	0.913	0.620	0.831	0.716	0.599	0.831	0.828	0.844	-0.768	0.163	0.735	-0.924
SGD	0.910	0.547	0.845	0.670	0.646	0.727	0.698	0.766	-0.764	-0.050	0.855	-0.926
IDR	0.896	0.683	0.821	0.714	0.586	0.830	0.849	0.853	-0.732	0.365	0.688	-0.896
INR	0.850	0.754	0.728	0.850	0.733	0.843	0.885	0.911	-0.767	0.099	0.556	-0.858
CNH	0.843	0.322	0.924	0.327	0.391	0.553	0.561	0.504	-0.536	0.004	1.000	-0.829
CHF	0.812	0.133	0.758	0.496	0.626	0.642	0.340	0.538	-0.747	-0.422	0.784	-0.769
JPY	0.791	0.816	0.712	0.638	0.581	0.686	1.000	0.703	-0.589	0.316	0.561	-0.803
USGG10	0.533	1.000	0.434	0.595	0.401	0.443	0.816	0.613	-0.374	0.373	0.322	-0.555
KRW	0.287	0.438	0.396	-0.005	-0.297	0.148	0.454	0.134	0.028	0.701	0.367	-0.273
PHP	0.118	0.770	-0.040	0.510	0.213	0.174	0.552	0.378	-0.140	0.487	-0.094	-0.139
CAD	-0.049	-0.246	0.175	-0.486	-0.357	-0.400	-0.267	-0.402	0.372	0.044	0.326	0.088
AUD	-0.544	-0.060	-0.621	-0.096	-0.398	-0.150	-0.115	-0.086	0.321	0.438	-0.680	0.468
NZD	-0.891	-0.659	-0.767	-0.751	-0.810	-0.738	-0.788	-0.774	0.782	0.187	-0.704	0.907
GBP	-0.952	-0.338	-0.863	-0.640	-0.730	-0.844	-0.679	-0.763	0.845	0.131	-0.802	0.948
EUR	-0.996	-0.555	-0.912	-0.711	-0.697	-0.845	-0.803	-0.830	0.839	-0.011	-0.829	1.000

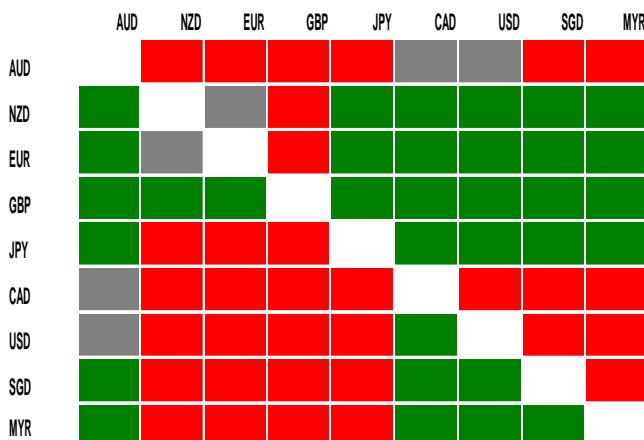
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1717	1.1762	1.1800	1.2021
GBP-USD	1.3391	1.3400	1.3419	1.3500	1.3570
AUD-USD	0.7452	0.7500	0.7556	0.7596	0.7600
NZD-USD	0.6851	0.6900	0.6917	0.7000	0.7093
USD-CAD	1.2800	1.2822	1.2842	1.2900	1.2926
USD-JPY	110.00	110.21	110.48	111.00	111.18
USD-SGD	1.3373	1.3400	1.3407	1.3485	1.3490
EUR-SGD	1.5744	1.5756	1.5769	1.5800	1.6070
JPY-SGD	1.2055	1.2100	1.2135	1.2136	1.2200
GBP-SGD	1.7913	1.7967	1.7991	1.8000	1.8138
AUD-SGD	1.0099	1.0100	1.0129	1.0153	1.0200
Gold	1281.20	1282.13	1291.80	1300.00	1306.03
Silver	16.49	16.50	16.51	16.60	16.70
Crude	67.15	71.90	71.97	72.00	72.83

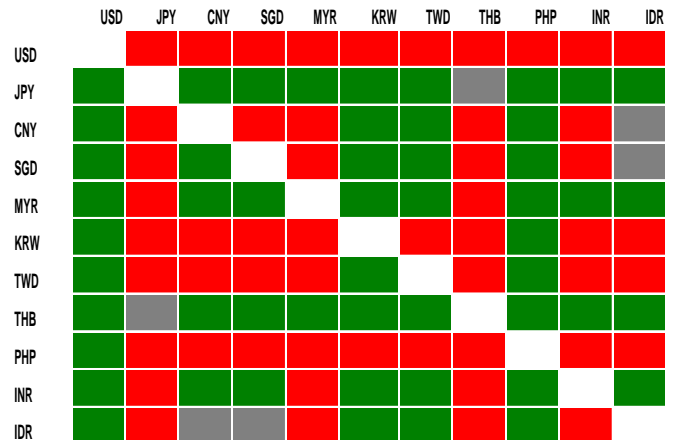
Source: OCBC Bank

G10 FX Heat Map



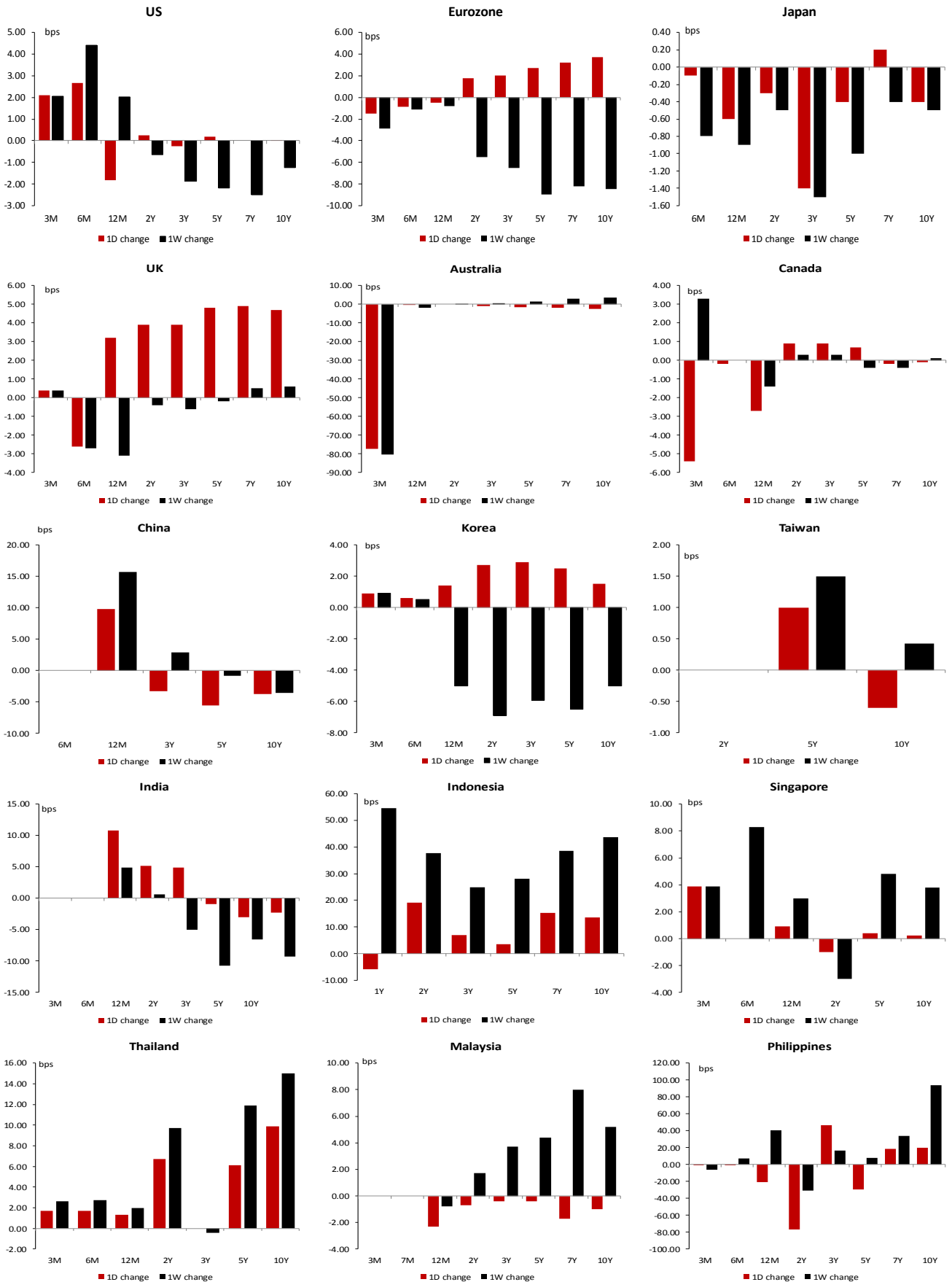
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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