

Wednesday, July 25, 2018

**FX Themes/Strategy/Trading Ideas**

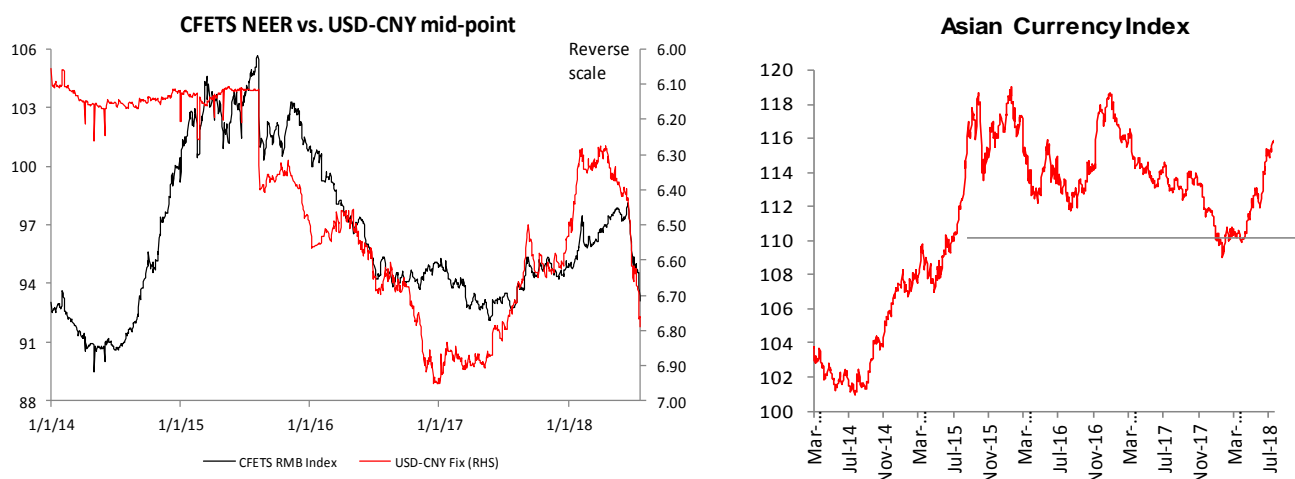
- 10y UST yields sustaining near 2.95% did not provide further support for the USD, as it closed mixed to weaker against G7 currencies. The DXY index languished near the middle of the recent range.
- The AUD was the main outperformer overnight as the market positioned for a strong CPI print ahead of the actual release. We think even a strong headline inflation print (actual: 0.4% yoy vs. consensus: 0.5% yoy) will not shift the **Reserve Bank of Australia's** (RBA) neutral to slightly dovish stance going forward. Beyond the immediate horizon, the RBA being a relative laggard in the normalization path should be a drag on the AUD.
- In the near term, the AUD as an EM Asia proxy may also not get much reprieve, especially with the USD-CNY uptrend remaining intact, and trade developments showing no signs of moving in a materially positive direction. **Overall, we prefer to fade any rallies in the AUD.**
- Economic prints since the June **European Central Bank** (ECB) meeting is essentially mixed to positive. Latest advanced PMI prints highlight a stronger-than-expected manufacturing sector, while the services lagged. Concerns over politics also faded in the interim. Trade issues may be raised, but the impact is still confined to business sentiments within specific sectors. From a macro perspective, the upcoming ECB meeting (Thu, 1145 GMT) is shaping up to be rather uneventful.
- Nevertheless, there is an outside chance for the ECB to refine its interest rate guidance for 2019. Any indications of that should point towards the first rate hike coming in closer to the middle of 2019, rather than towards to end. **Going forward, expect the EUR to remain range-bound pending new drivers.**
- On the data front, watch for Eurozone M3 money supply, (0800 GMT), German Ifo (0800 GMT) and US home sales (1400 GMT).

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## Asian FX

- Overall risk sentiments were given a lift as China announced a raft of stimulative measures to boost domestic demand amid of trade war concerns and a slowing domestic economy. Expect the government to follow up with further expansionary fiscal policies to complement the loosening bias at the PBoC. **At present, the focus of the government seemed to shift away from deleveraging to stimulating growth.**
- The market took the new Chinese measures positively. Recovering EM FX and positive US/EU/EM equities overnight further fed into risk sentiments. Our **FX Sentiment Index (FXSI)** made a jump towards the Risk-On zone, while remaining within the Risk Neutral territory.
- The USD-CNY may pause around the 6.8000 level for now, as the market consolidates to digest the rapid retracement overnight and the implications of the slew of fiscal supportive measure. Nevertheless, the pair's uptrend remains intact, and **today's fix suggests that the PBoC have no qualms in setting the fix above psychological waypoints.** Again, we think this reflects official nonchalance towards the ascent in the USD-CNY.
- **Intra-day, expect the Asian currencies to gain some reprieve as the USD-CNY looks to consolidate. However, this will likely be temporary, and we expect dips in the Asian Currency Index (ACI) to be shallow and short-lived.**
- For **Asian portfolio flows**, we note that aggregated equity outflow momentum, on both the rolling 20D and 60D basis, has improved materially from historically stretched levels. At this juncture, we may be able to call the bottom for bond and equity outflows in aggregate terms from EM Asia
- **SGD NEER:** The SGD NEER is relative stable this morning, standing at around +1.00% above its perceived parity level (1.3782). The NEER-implied USD-SGD thresholds were marginally weaker overnight. Expect an intra-day range between the +0.80% (1.3672) and +1.20% (1.3618) thresholds. Retain a preference to buy the USD-SGD on dips as a proxy for USD-CNY and USD-Asia moves.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations, at 6.8040 compared to 6.7891 on Tuesday. The CFETS RMB Index eased further to 93.87, compared to 93.13 previously.



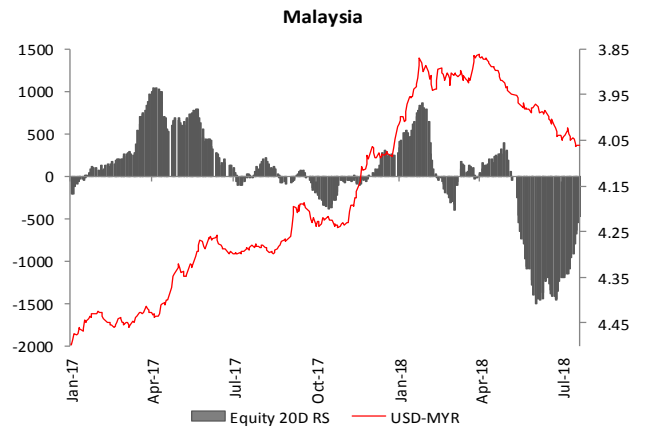
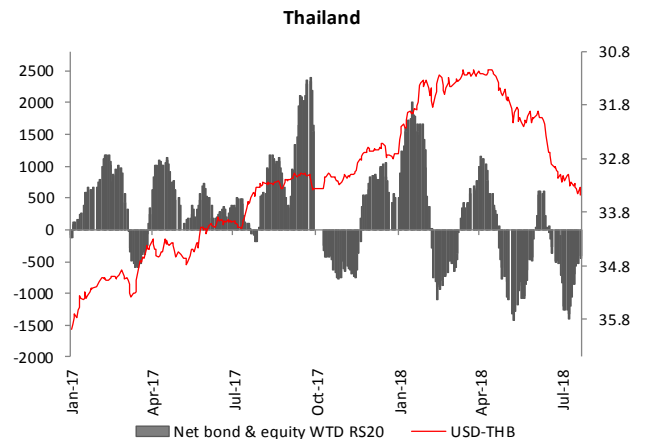
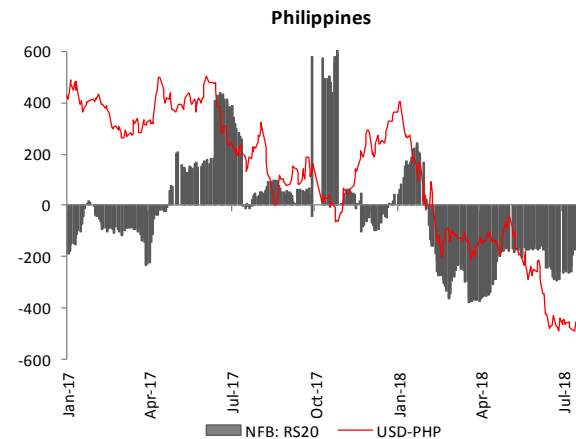
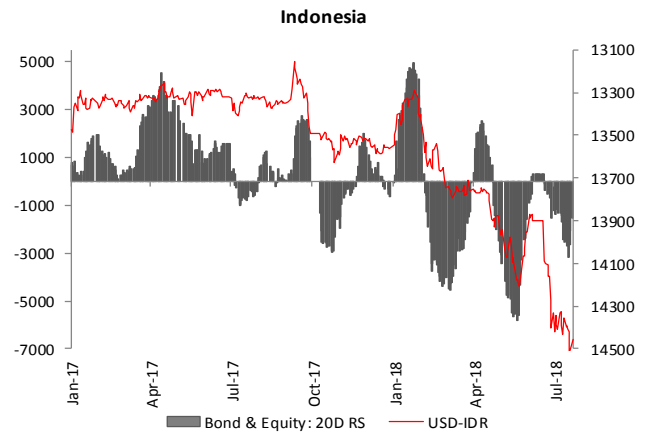
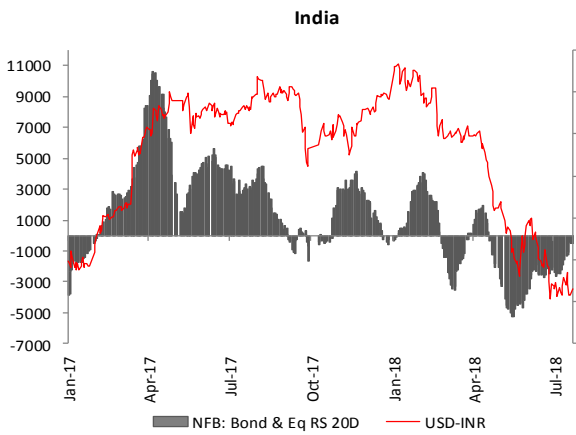
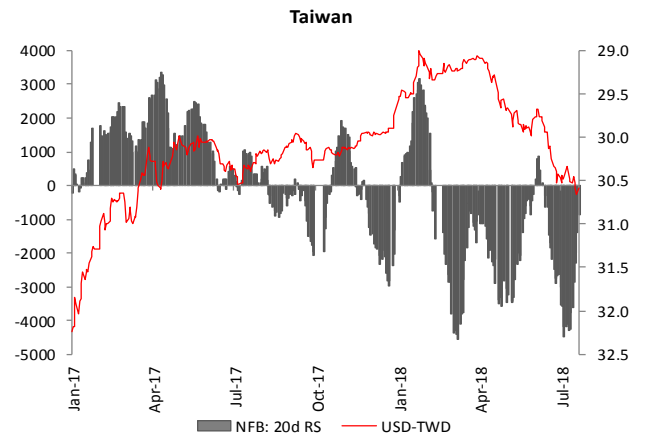
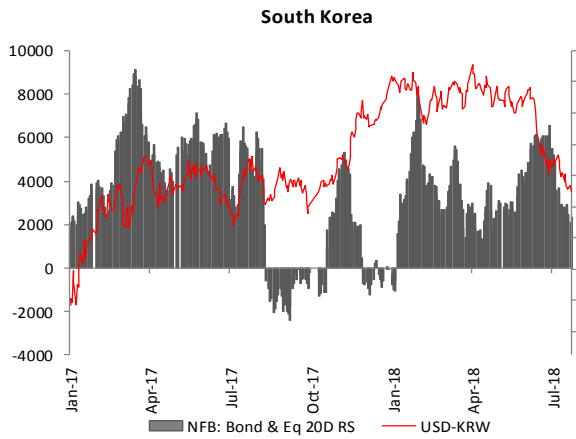
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	Expansionary fiscal policy to complement monetary loosening to support the Chinese economy; the USD-CNH and USD-CNY moved above 6.8000 and the CFETS RMB Index below 93.00 with little evidence of PBoC intervention; watch the index at 92.00 (2017 low) as the next waypoint
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	↔	Persistent outflow momentum has been curtailed, now reaching effectively neutral levels; unconfirmed news of further OMO purchases; recent decline in oil prices may provide some relief
USD-SGD	↔	Pair responsive to broad USD movements; expect resistance around 1.3700 and support near 1.3600; headline and core inflation prints in-line to stronger than expected, core inflation may hit 2.0% yoy before the MAS Oct MPS. Further policy tightening in the Oct MPS cannot be discounted.
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; BI committed to defend the currency, although the pair may now settle north of 14,450.
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; Moody's maintain IG rating

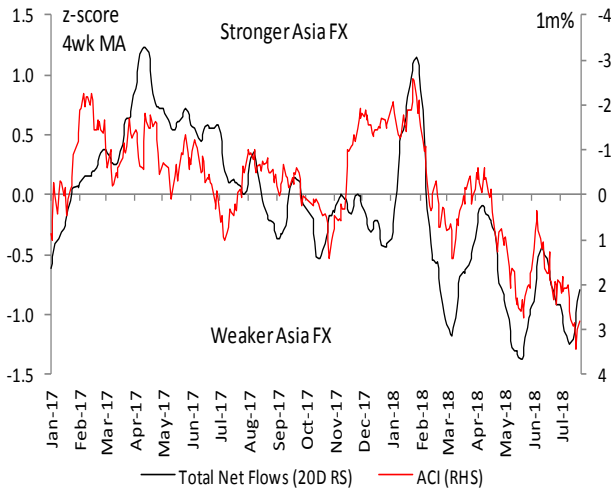
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



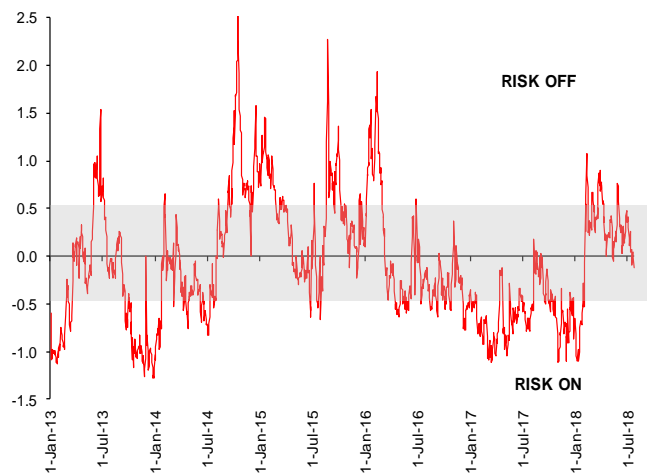
Source: CEIC, Bloomberg, OCBC Bank

**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	-0.063	0.242	-0.060	-0.198	-0.237	0.348	-0.215	0.188	0.041	0.217	-0.904
SGD	0.839	-0.039	0.306	-0.148	-0.305	-0.263	0.209	-0.191	0.254	0.159	0.280	-0.786
CHF	0.695	-0.258	0.362	0.412	-0.072	-0.479	0.781	-0.262	-0.372	-0.376	0.356	-0.453
CAD	0.626	0.006	-0.231	-0.416	0.043	0.008	-0.200	-0.238	0.573	0.220	-0.280	-0.696
KRW	0.417	0.517	0.874	0.676	0.282	-0.789	0.629	-0.671	-0.524	-0.688	0.856	-0.088
PHP	0.417	0.059	0.339	0.353	0.170	-0.489	0.408	-0.426	-0.234	-0.417	0.335	-0.199
JPY	0.348	0.035	0.639	0.787	0.175	-0.784	1.000	-0.496	-0.769	-0.735	0.634	0.042
MYR	0.314	0.350	0.895	0.574	-0.032	-0.611	0.531	-0.383	-0.510	-0.492	0.891	-0.075
TWD	0.306	0.427	0.842	0.443	0.042	-0.529	0.390	-0.357	-0.350	-0.404	0.828	-0.098
IDR	0.284	0.301	0.900	0.612	-0.115	-0.430	0.492	-0.131	-0.584	-0.469	0.913	-0.042
CNY	0.242	0.530	1.000	0.765	0.180	-0.714	0.639	-0.493	-0.688	-0.706	0.993	0.087
CNH	0.217	0.474	0.993	0.765	0.137	-0.715	0.634	-0.496	-0.703	-0.693	1.000	0.096
THB	0.028	0.463	0.943	0.819	0.179	-0.719	0.694	-0.433	-0.786	-0.734	0.957	0.284
INR	0.028	0.053	0.595	0.350	-0.391	-0.110	0.150	0.197	-0.370	-0.183	0.612	0.071
USGG10	-0.063	1.000	0.530	0.377	0.607	-0.356	0.035	-0.551	-0.250	-0.425	0.474	0.202
NZD	-0.525	0.228	-0.414	-0.065	0.438	0.153	-0.417	-0.170	0.097	-0.114	-0.411	0.434
AUD	-0.770	0.115	-0.063	0.427	0.521	0.015	0.037	-0.023	-0.500	-0.425	-0.010	0.837
GBP	-0.826	-0.227	-0.607	-0.199	0.128	0.381	-0.402	0.306	0.065	0.187	-0.580	0.634
EUR	-0.904	0.202	0.087	0.428	0.376	-0.110	0.042	-0.031	-0.530	-0.405	0.096	1.000

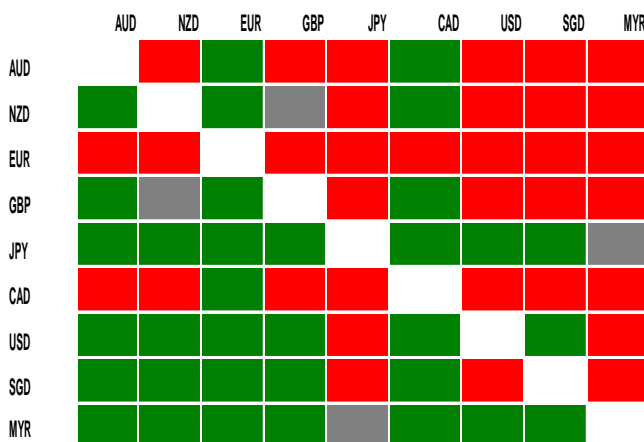
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1596	1.1600	1.1679	1.1684	1.1700
GBP-USD	1.3030	1.3100	1.3140	1.3200	1.3264
AUD-USD	0.7311	0.7336	0.7397	0.7400	0.7463
NZD-USD	0.6700	0.6720	0.6791	0.6800	0.6843
USD-CAD	1.3087	1.3100	1.3163	1.3200	1.3249
USD-JPY	110.57	111.00	111.29	112.00	113.11
USD-SGD	1.3570	1.3600	1.3649	1.3700	1.3709
EUR-SGD	1.5866	1.5900	1.5941	1.5995	1.6000
JPY-SGD	1.2200	1.2233	1.2264	1.2300	1.2417
GBP-SGD	1.7826	1.7900	1.7935	1.7938	1.8000
AUD-SGD	1.0000	1.0044	1.0096	1.0100	1.0104
Gold	1210.70	1216.61	1223.50	1267.38	1270.24
Silver	15.24	15.40	15.44	15.50	16.22
Crude	66.51	68.70	68.77	68.80	69.21

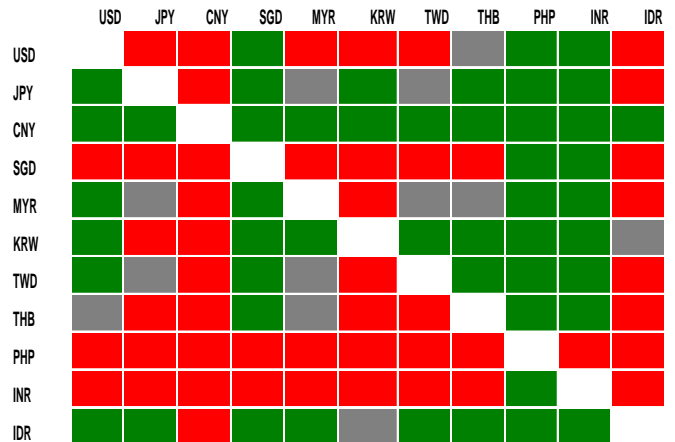
Source: OCBC Bank

**G10 FX Heat Map**



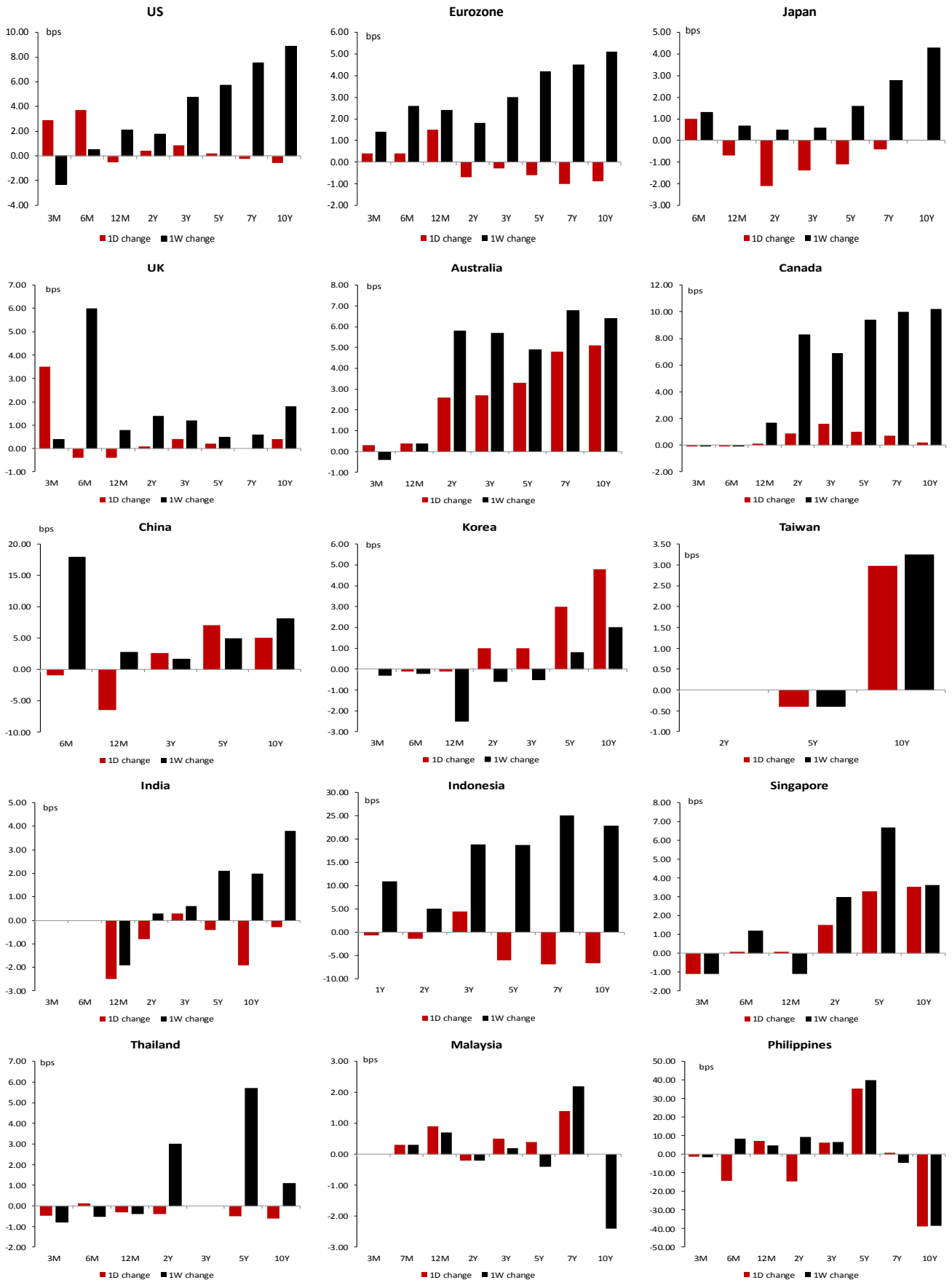
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



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