

Monday, June 25, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- At this juncture, a degree of caution may still be retained against a more wholehearted embrace of broad USD strength, especially after a bout of profit-taking on Friday.
- We continue to watch the EUR closely in this respect, especially to see if it can move decisively away from the 1.1650 level. Expect the EUR to still be led by ECB headlines this week, with the ECB minutes (Thu) being closely watched. More fundamentally perhaps, attention should shift towards economic prints, starting from German IFO (0800 GMT) and Eurozone CPI's (Thu and Fri). If Eurozone economic data continue to print weaker relative to the US, the EUR may drift towards the weaker end of its recent range.
- **Overall, we retain a slight bias for a firmer broad USD going forward, though further upside in the DXY index from last week's high may be limited given the downside support holding for the EUR.**
- Some comfort for the USD bulls from the **CFTC** data, which shows the investment community shifted significantly in favour of the USD post the Fed/ECB meetings. Leveraged accounts deepened their net implied USD longs, mainly through increasing the EUR shorts and paring GBP longs to essentially neutral levels. Crucially, the asset managers reduced their net implied USD shorts significantly in the latest week. Summing between the leveraged and asset manager accounts, we are in a net implied USD long position for the first time since June 2017. Further shifts on the asset manager positioning may precipitate a more sustained USD rally.
- Despite the 10y UST yield lacking in upside momentum, yield differentials continue to favour the USD. Note that the positive correlation is re-engaging, and we expect this to lend some support to the broad USD on the margins
- The central bank calendar is heavy with European speakers this week, with the headline being the ECB minutes (Thu). Expect ECB's Coeure, Hansson, De Guindos (Tue) and Praet (Wed), and BOE's McCafferty (Tue), Carney (Wed), Bailey and Haldane (Thu). On the Fed front, we will see Bostic, Kaplan (Tue), Rosengren (Wed) and Bullard (Friday).
- The data front will be headlined by US GDP and PCE inflation prints, and Eurozone CPI prints late week.

Treasury Research &
Strategy

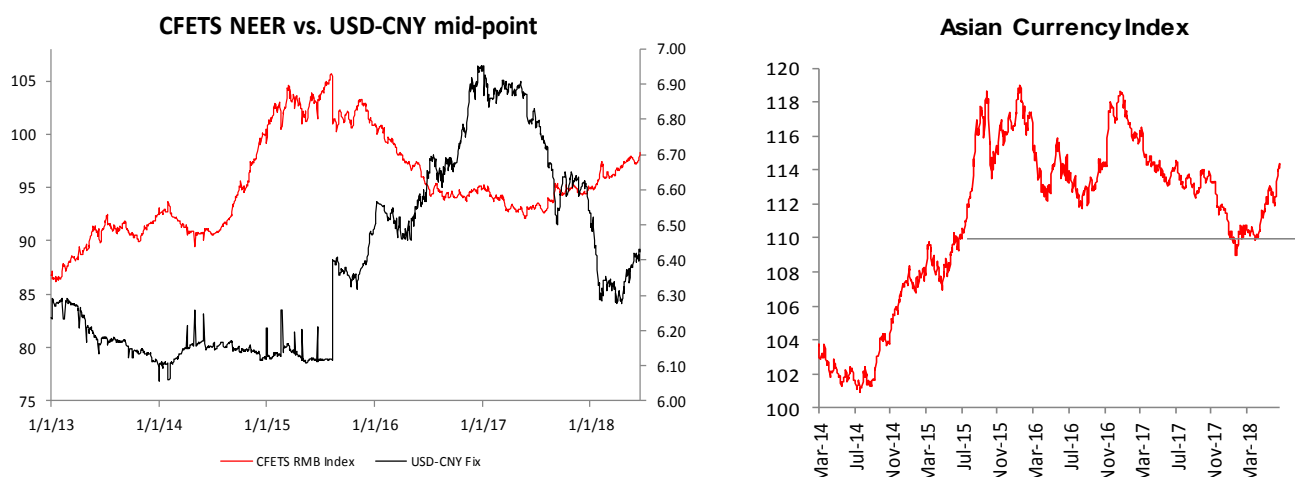
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Asian FX

- Sino-US trade tensions will continue to weigh on Asian currencies this week. Note that the next salvo is expected to be restrictions on Chinese investments in the US (expected by Friday). Note that Asian currencies are more reactive to USD strength this time round, compared to the late April – May period. We think this may be due to the close deadlines on the trade tension front, and the lack of stability emanating from the RMB complex.
- **Note that the RMB complex may be seeing further depreciation pressure ahead**, especially with the threat of a trade war on the horizon. The RRR cut over the weekend will also not do the RMB any favours. Going forward, we may expect the CFETS CNY Index to slip away from the 97.00 on the downside.
- Expect risk sentiments to remain jittery this week, although a positive lead from US/EZ equities on Friday contributed to our **FX Sentiment Index (FXSI)** edged lower within the Risk Neutral territory.
- **Although the impact of the trade tensions on USD-G10 may be mixed, we expect the Asian Currency Index (ACI) to push higher this week unless there is a tone-down of trade issues.**
- The **Asian portfolio flow environment** continues to look pressured, with equity outflows from Taiwan seeing consistent intensification over the past week. Outflows are also building in Thailand and Philippines on a rolling 20-day basis, while outflows from India are stable at recent levels. South Korea continues to be the only bright spot in Asia.
- **SGD NEER:** The SGD NEER is weaker this morning, hovering at -0.15% above its perceived parity (1.3609), with the NEER-implied USD-SGD thresholds softer. Expect the pair to move within -0.20% (1.3636) and +0.20% (1.3582) thresholds intra-day. Continue to look for a bullish close above the 1.3600, with a view towards 1.3660. The Singapore data calendar features CPI later today and industrial production tomorrow, among others.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations, at 6.4893 compared to 6.4804 on Friday. The CFETS RMB Index weakened marginally to 97.00, compared to 97.38 previously.



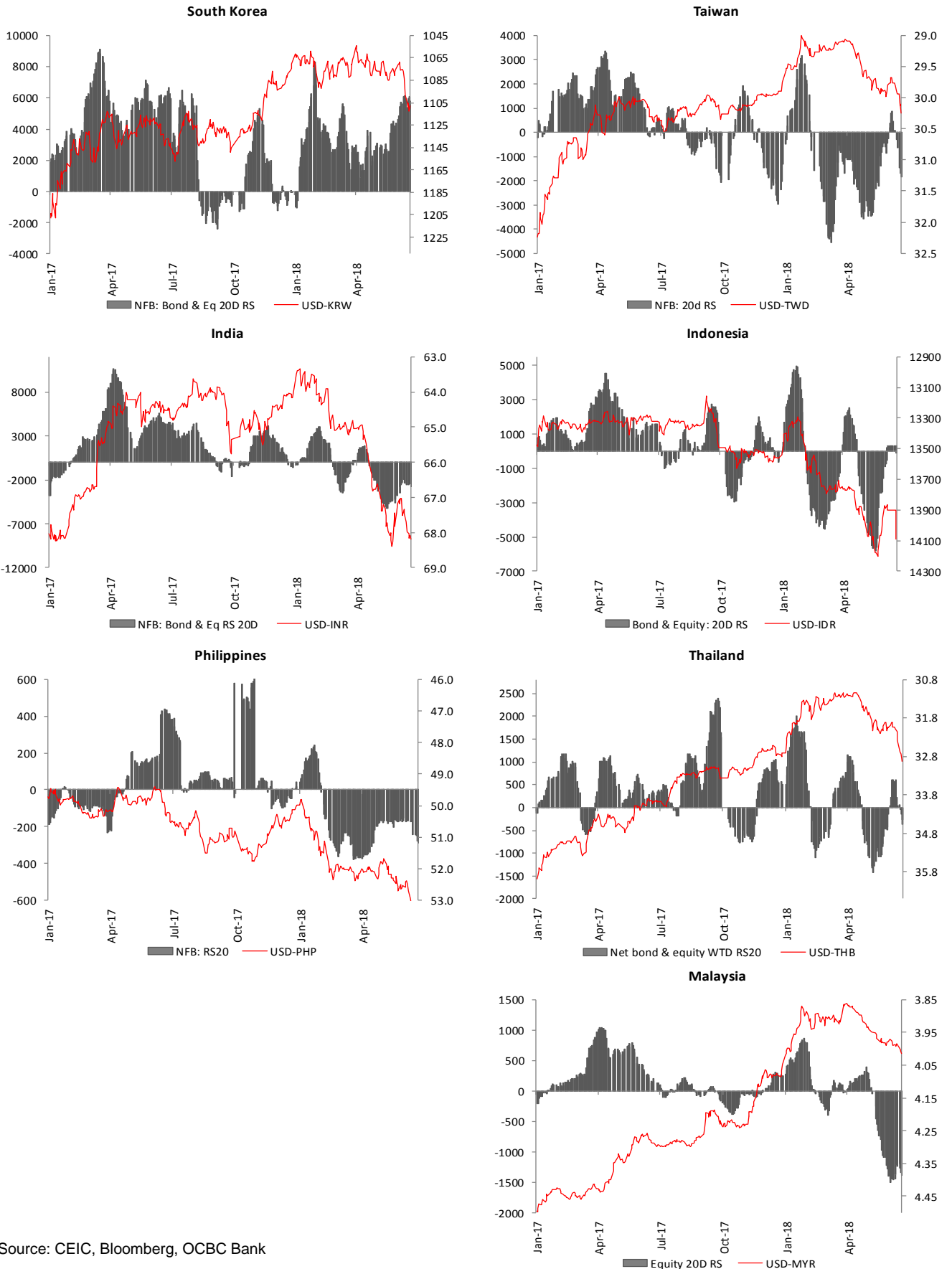
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	Sino-US trade tensions reigniting; depreciation of the RMB basket may be engineered amid looming trade tensions; RRR cut may herald further easing of monetary policy, putting negative pressure on the currency
USD-KRW	↑	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; minutes of the 24 May BOK meeting reveal discussion towards reducing policy accommodation
USD-TWD	↑	Equity outflows re-asserting after short reprieve; pair led higher by the weakening RMB complex
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 near parity, but watch economic prints for any deterioration; 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 a laggard among the Asian central banks, keeping rates unchanged in the latest meeting; bond outflows re-asserting after a short reprieve
USD-PHP	↑	BSP hiked rates in the latest meeting, signaling further rate hikes to come; PHP remains pressured due to intensifying outflows

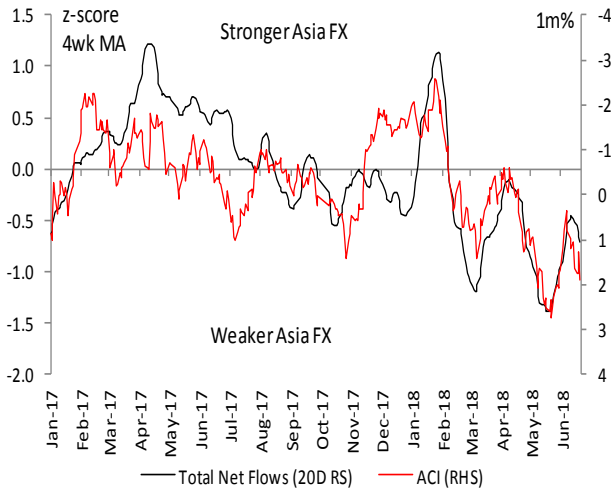
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



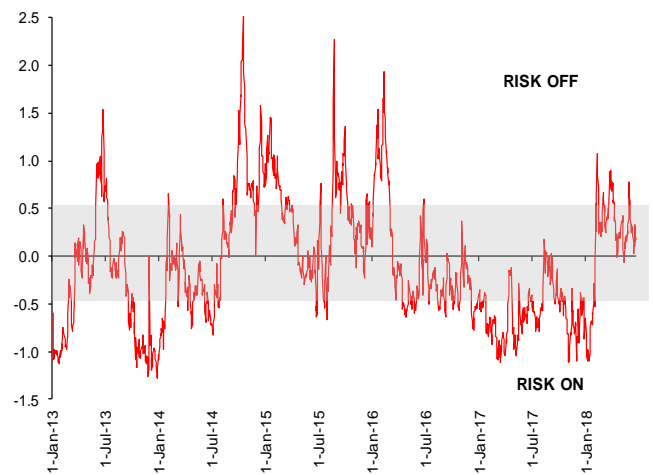
Source: CEIC, Bloomberg, OCBC Bank

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	-0.396	0.677	-0.152	-0.739	-0.550	0.202	0.084	0.295	-0.032	0.702	-0.960
USGG10	0.887	1.000	-0.142	0.442	0.065	-0.554	-0.506	0.354	-0.074	0.047	-0.222	0.419
CNY	0.665	-0.289	0.912	-0.005	-0.824	-0.697	0.268	0.250	0.229	0.128	0.942	-0.735
SPX	0.802	-0.297	0.603	1.000	-0.289	-0.701	-0.122	-0.024	0.628	0.462	0.203	0.611
MSELCPAF	0.768	-0.265	0.695	0.045	1.000	-0.664	-0.571	0.274	0.142	0.226	0.205	0.732
CRY	0.768	-0.065	0.881	0.249	-0.662	-0.855	0.498	0.089	0.004	0.052	0.924	-0.574
JPY	0.760	-0.413	0.911	-0.203	-0.931	-0.498	1.000	0.034	0.363	0.468	0.321	0.911
CL1	0.753	-0.074	0.945	0.221	-0.786	-0.793	0.487	1.000	-0.022	0.045	0.118	0.942
VIX	0.738	-0.286	0.968	0.158	-0.773	-0.807	0.407	0.042	0.241	0.289	0.970	-0.593
ITRXXK	0.702	-0.273	0.982	0.032	-0.810	-0.731	0.251	0.278	0.235	0.220	1.000	-0.547
CNH	0.677	-0.278	0.900	-0.013	-0.845	-0.711	0.194	0.082	0.270	0.262	0.982	-0.535
EUR	0.641	0.077	0.733	0.411	-0.602	-0.737	0.647	0.086	-0.056	0.074	0.776	-0.445
USD	0.620	-0.206	0.824	0.208	-0.709	-0.666	0.359	0.171	0.309	0.499	0.837	-0.479
SGD	0.202	0.674	0.194	0.867	0.103	-0.684	1.000	-0.343	-0.751	-0.465	0.251	0.014
JPY	-0.396	1.000	-0.278	0.807	0.512	-0.234	0.674	-0.361	-0.903	-0.581	-0.273	0.543
CL1	-0.876	0.435	-0.747	0.277	0.776	0.469	-0.026	-0.292	-0.437	-0.199	-0.775	0.825
VIX	-0.892	0.275	-0.841	-0.049	0.788	0.683	-0.330	-0.178	-0.208	-0.137	-0.861	0.766
ITRXXK	-0.937	0.449	-0.735	0.234	0.850	0.495	-0.088	-0.199	-0.409	-0.087	-0.738	0.883
CNH	-0.960	0.543	-0.535	0.354	0.705	0.328	0.014	-0.142	-0.447	-0.011	-0.547	1.000

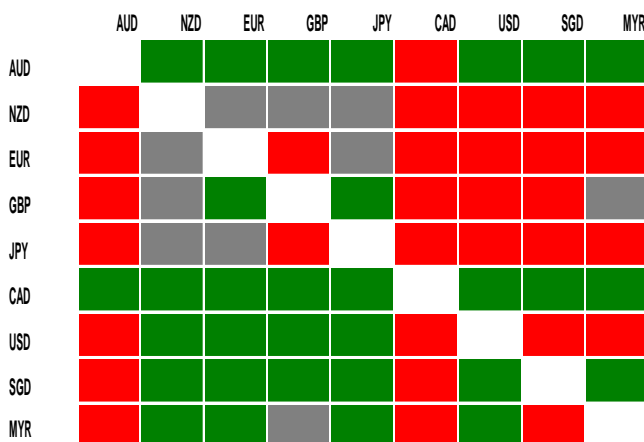
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1515	1.1600	1.1653	1.1700	1.1835
GBP-USD	1.3157	1.3200	1.3260	1.3300	1.3457
AUD-USD	0.7346	0.7400	0.7425	0.7500	0.7547
NZD-USD	0.6857	0.6900	0.6902	0.7000	0.7001
USD-CAD	1.2926	1.3200	1.3292	1.3300	1.3373
USD-JPY	109.00	109.57	109.58	110.00	110.23
USD-SGD	1.3374	1.3600	1.3625	1.3642	1.3660
EUR-SGD	1.5849	1.5858	1.5877	1.5900	1.5958
JPY-SGD	1.2400	1.2432	1.2433	1.2464	1.2500
GBP-SGD	1.8000	1.8025	1.8067	1.8073	1.8100
AUD-SGD	1.0092	1.0100	1.0117	1.0200	1.0231
Gold	1260.00	1263.25	1271.20	1300.00	1304.53
Silver	16.17	16.30	16.37	16.40	16.56
Crude	68.20	68.30	68.39	68.40	68.47

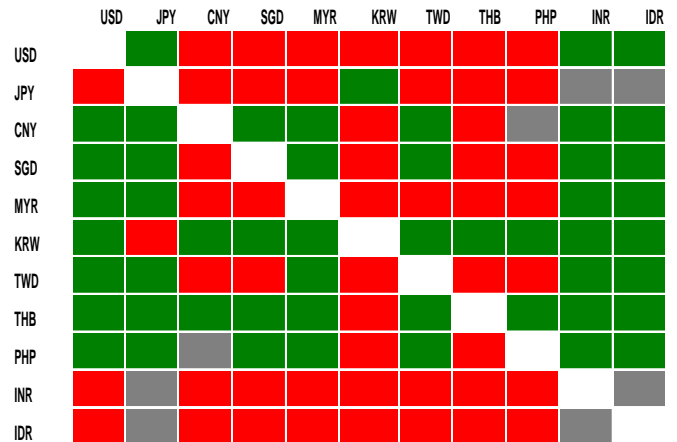
Source: OCBC Bank

G10 FX Heat Map



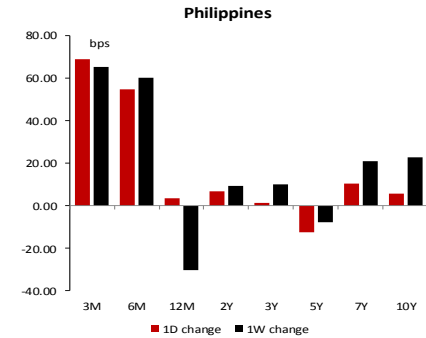
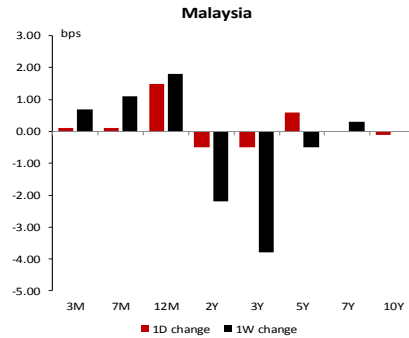
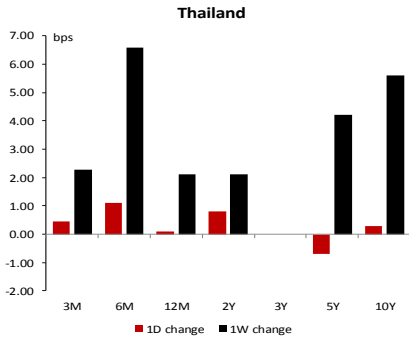
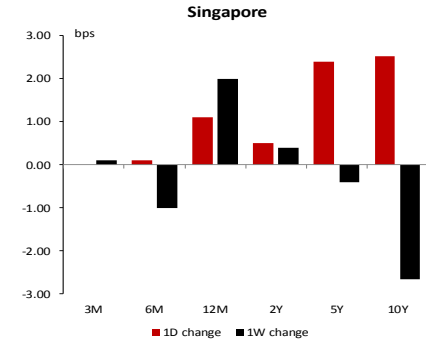
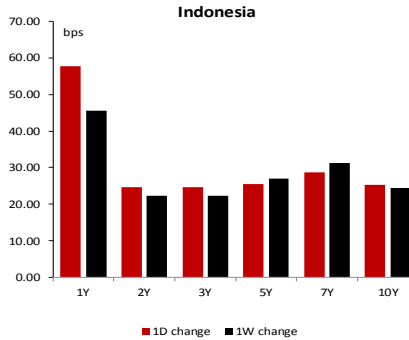
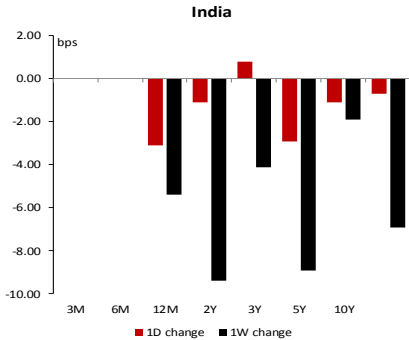
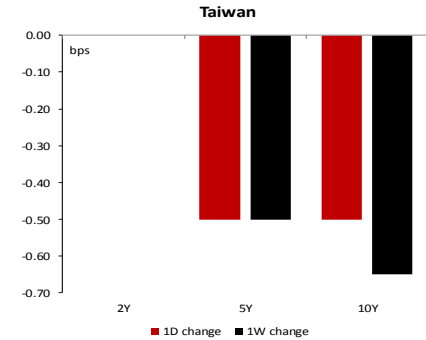
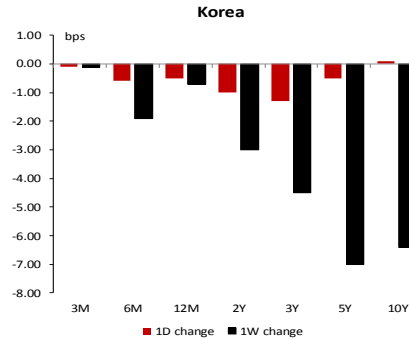
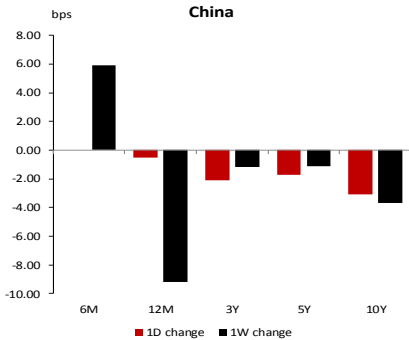
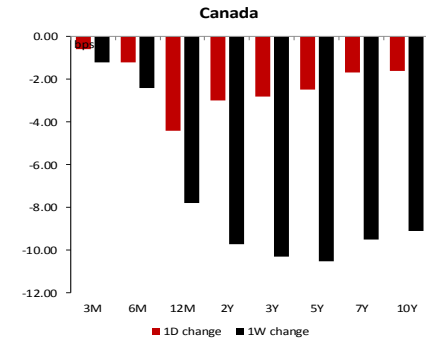
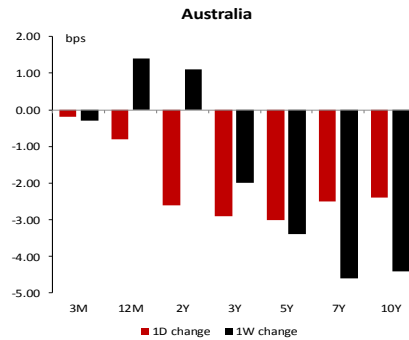
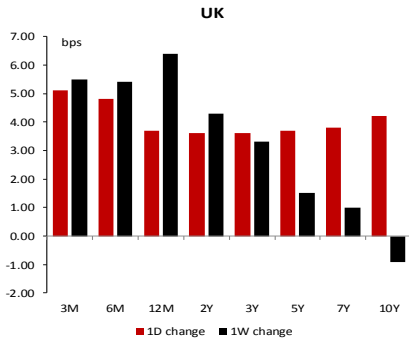
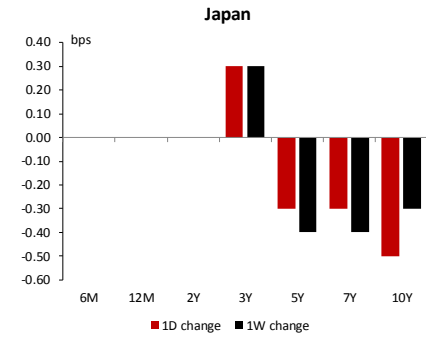
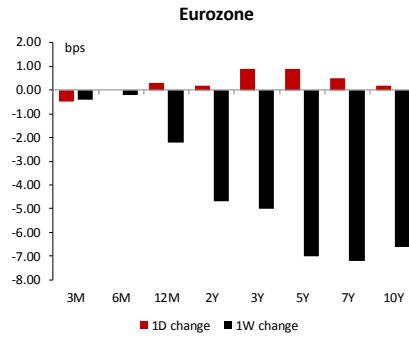
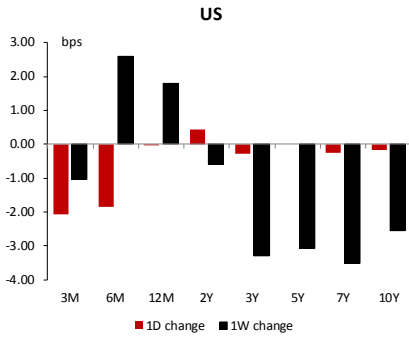
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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