

Friday, May 25, 2018

## FX Themes/Strategy/Trading Ideas

- The dollar was shaved lower across the board on Thursday after Trump scuttled the North Korean summit meeting, with the DXY slipping through 93.80 by late NY. Despite ongoing Italian (i.e., Eurosceptic concerns), the EUR-USD also gained to test the 1.1750 handle. Similarly, despite background Brexit uncertainty, the GBP-USD also managed to float higher to tread temporarily above 1.3400.
- Negative EZ/US equities (flat lining EM stocks) and shaky sentiment meanwhile saw the JPY outperforming across G10 space with the USD-JPY slumping testing briefly below 109.00. On other fronts, the CAD was an all-round underperformer after crude slumped below 71.00.
- Already weighed by the less than hawkish FOMC minutes from Wednesday, the 10y UST yield stayed below 3.00% (with the entire curve softening) on the back of the Trump headlines on Thursday. **Unfortunately, this works against the dollar from the rate differential perspective and may further flush out long USD positioning previously chalked up on the back of this premise.** If however, risk aversion deepens and contagion heightens, the USD may react higher in typical fashion.
- From a broader perspective, investor jitters did not permeate significantly with the **FXSI (FX Sentiment Index)** still managing to tick lower within Risk-Neutral territory on Thursday. However, with background global trade tensions still in circulation, we continue to preach caution, especially with JPY riskies and flies angling for potential volatility.
- For today, the spotlight may remain on the dollar with the Fed's Powell (1320 GMT), Kaplan, Evans, and Bostic (1545 GMT) scheduled to speak. Meanwhile, the ECB's Villeroy (0700 GMT) and Coeure (1315 GMT) are penciled in, with the ECB's Liikanen and the BOE's Carney also scheduled to attend a Riksbank conference. **If Trump-related headlines subside, markets may instead revert to trading off perceived central bank policy dichotomies.**

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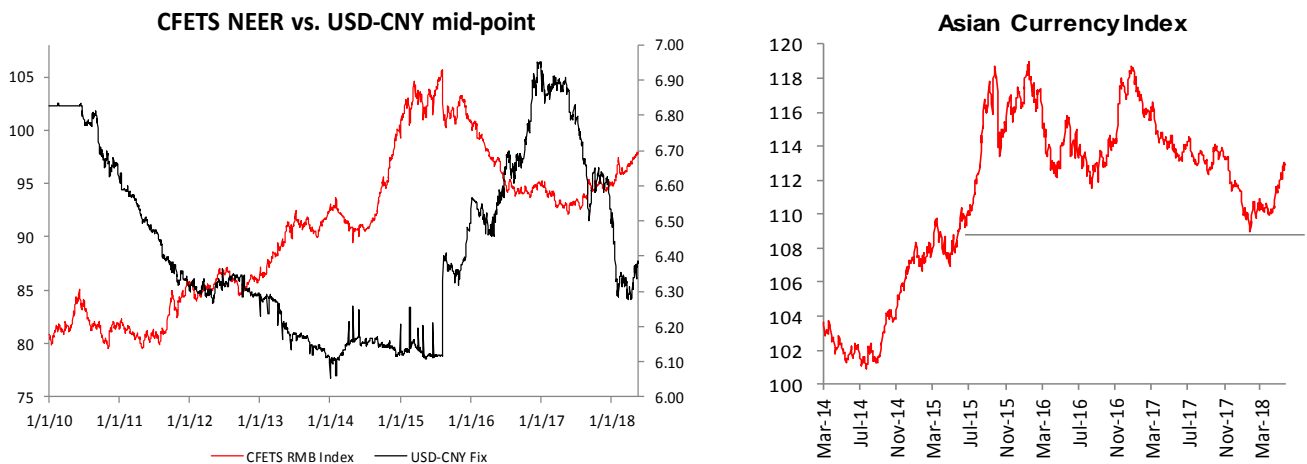
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## Asian FX

- Except for the TRY, EM FX was a mixed bag on Thursday, responding more to dollar vulnerability rather than risk aversion at large. As alluded to above however, investor sentiment may remain on edge, and USD strength may continue to lurk just beneath the surface if risk appetite takes a dive. As such, the risk rewards for the **ACI (Asian Currency Index)** may continue to be skewed to the upside into the end of the week with net portfolio flows providing little implicit support in aggregate.
- Structurally, short-end EM/Asia vols (implied and realized) have hiked up (and outperformed their G7 counterparts) perceptibly amidst the recent global re-pricing exercise, impinging on associated vol adjusted returns and the allure of EM/Asia at this juncture.
- Net portfolio flows in Asia continue to show a net pick up in overall inflows for South Korea although this may be dented by the latest Trump-North Korean summit news flow. Taiwan continues to experience continued compression in net equity outflows while the moderation in net outflows for both India and Thailand may be stalling at this juncture.
- **India:** Government bonds may continue to see limited demand going forward, with sustained crude oil prices and electoral politics putting pressure on the government's budget this year. Expect the 10y benchmark yield to firm towards the 8.00% handle into 2H18.
- **Indonesia:** Comments by the new Bank Indonesia (BI) governor, Perry Warjiyo, placed IDR stability as the primary goal for monetary policy. This suggests that macroeconomic outcomes (to be addressed through other instruments) may take a back seat in formulating monetary policy, implying a likely hawkish path ahead for the policy rate if the IDR continues to be pressured. Note also, that the BI has been active in the secondary market to support government bonds.
- **SGD NEER:** The SGD NEER is relatively firmer on the day at around +0.48% above its perceived parity (1.3478) with NEER-implied USD-SGD thresholds a touch softer on the day. Look for a potential +0.40% (1.3425) to +0.70% (1.3385) range pending dollar and risk appetite dynamics. In the interim, the 200-day MA (1.3370) may continue to cushion, with the topside bookended by 1.3465.
- **CFETS RMB Index:** The USD-CNY mid-point clocked a higher than expected 6.3867 this morning from 6.3816 on Thursday, pulling the CFETS RMB Index lower to 97.63 from 97.75 yesterday. Overall, we'd expect the Index to find an interim ceiling circa 98.00.



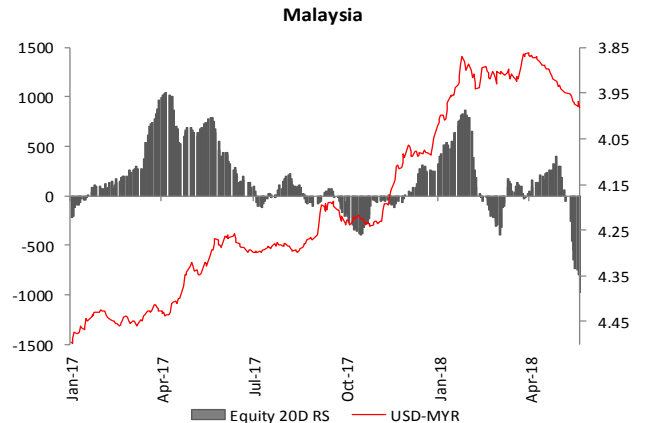
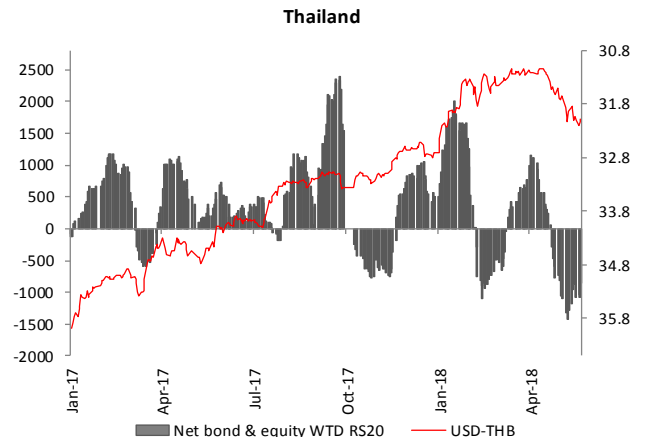
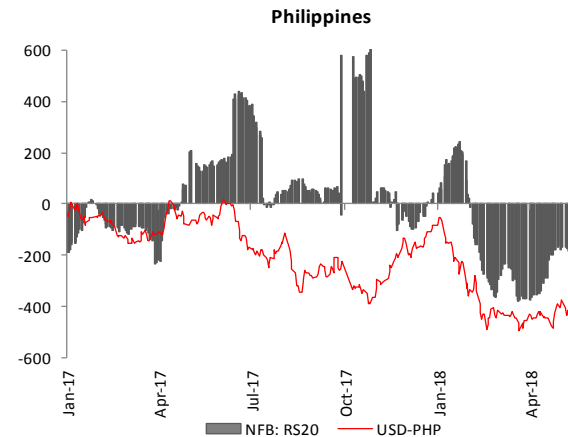
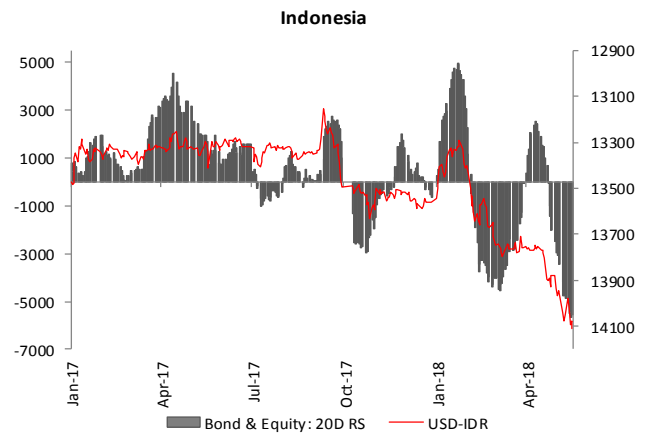
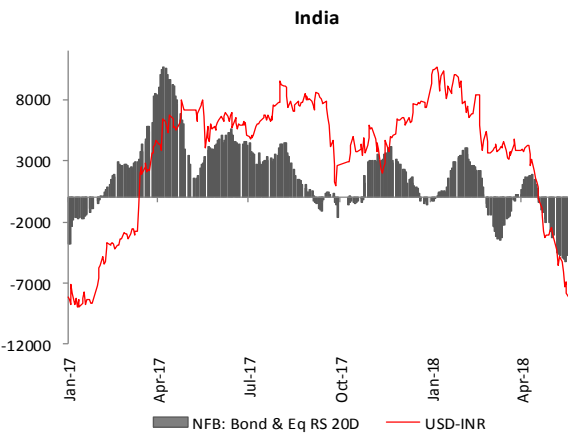
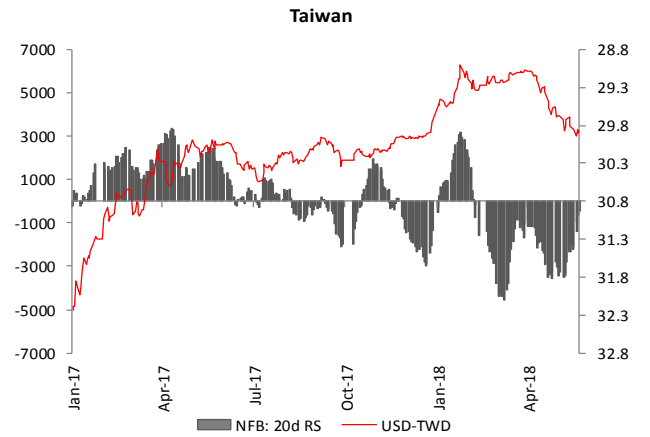
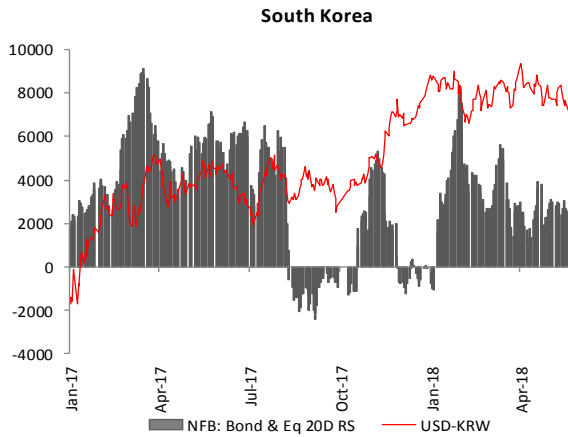
Source: OCBC Bank, Bloomberg

### 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 unchanged at 1.50% in May
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 hikes in May, remains uncomfortable towards IDR/bond weakness
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

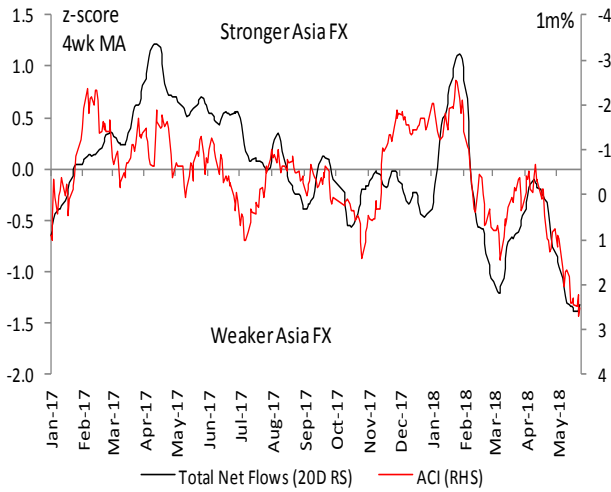
Source: OCBC Bank

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



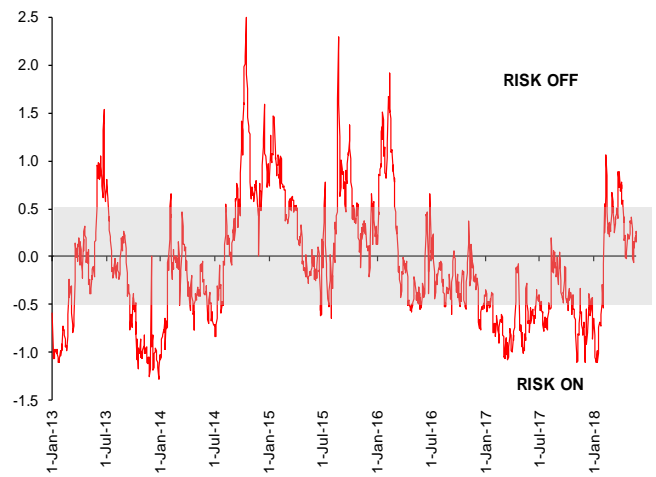
Source: CEIC, Bloomberg, OCBC Bank

**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	0.440	0.929	0.749	0.587	0.858	0.673	0.807	-0.849	0.367	0.851	-0.995
MYR	0.980	0.514	0.894	0.882	0.672	0.914	0.713	0.912	-0.938	0.447	0.790	-0.982
CNY	0.929	0.330	1.000	0.511	0.376	0.723	0.605	0.669	-0.634	0.383	0.923	-0.911
THB	0.925	0.534	0.818	0.828	0.613	0.842	0.721	0.909	-0.861	0.298	0.707	-0.929
IDR	0.914	0.525	0.841	0.759	0.487	0.864	0.716	0.841	-0.761	0.590	0.727	-0.916
TWD	0.912	0.540	0.829	0.786	0.513	0.845	0.732	0.864	-0.797	0.436	0.737	-0.922
SGD	0.896	0.498	0.829	0.702	0.589	0.713	0.617	0.785	-0.763	0.169	0.835	-0.901
INR	0.864	0.565	0.748	0.867	0.606	0.871	0.709	0.868	-0.787	0.470	0.607	-0.879
JPY	0.851	0.228	0.923	0.419	0.295	0.609	0.393	0.533	-0.582	0.350	1.000	-0.862
CNH	0.673	0.819	0.605	0.587	0.526	0.548	1.000	0.620	-0.497	0.218	0.393	-0.582
CHF	0.639	0.103	0.590	0.443	0.578	0.452	0.316	0.526	-0.640	-0.375	0.555	-0.551
USGG10	0.440	1.000	0.330	0.517	0.382	0.320	0.819	0.562	-0.292	0.191	0.228	-0.446
PHP	0.354	0.646	0.195	0.607	0.258	0.414	0.526	0.463	-0.333	0.634	0.167	-0.389
KRW	0.258	0.378	0.350	0.052	-0.425	0.176	0.364	0.142	0.010	0.696	0.347	-0.249
CAD	0.009	-0.256	0.217	-0.409	-0.345	-0.295	-0.291	-0.331	0.294	0.123	0.409	-0.059
AUD	-0.279	-0.049	-0.383	0.038	-0.313	0.105	-0.136	-0.015	0.123	0.486	-0.370	0.189
NZD	-0.869	-0.632	-0.736	-0.814	-0.772	-0.723	-0.691	-0.805	0.797	-0.094	-0.684	0.877
GBP	-0.953	-0.251	-0.862	-0.709	-0.643	-0.860	-0.488	-0.764	0.869	-0.245	-0.828	0.948
EUR	-0.995	-0.446	-0.911	-0.775	-0.590	-0.870	-0.582	-0.814	0.863	-0.382	-0.862	1.000

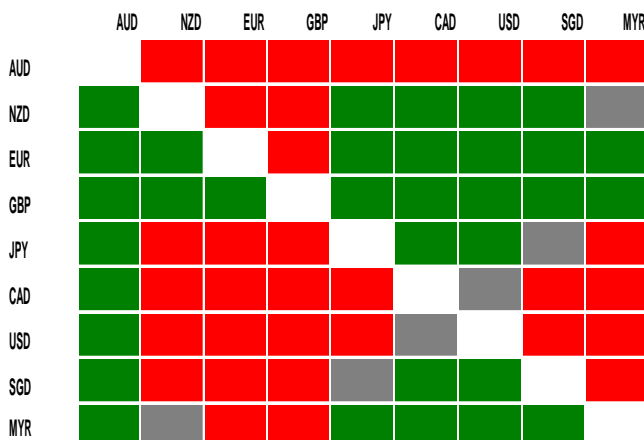
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1676	1.1700	1.1710	1.1800	1.2021
GBP-USD	1.3306	1.3329	1.3373	1.3400	1.3575
AUD-USD	0.7452	0.7500	0.7568	0.7597	0.7600
NZD-USD	0.6852	0.6900	0.6926	0.7000	0.7059
USD-CAD	1.2815	1.2900	1.2902	1.2934	1.2998
USD-JPY	108.58	109.00	109.60	110.00	110.21
USD-SGD	1.3370	1.3400	1.3404	1.3477	1.3490
EUR-SGD	1.5680	1.5694	1.5698	1.5700	1.6055
JPY-SGD	1.2134	1.2200	1.2232	1.2247	1.2300
GBP-SGD	1.7900	1.7904	1.7926	1.8000	1.8141
AUD-SGD	1.0097	1.0100	1.0145	1.0181	1.0200
Gold	1281.68	1300.00	1301.80	1306.40	1322.32
Silver	16.49	16.60	16.62	16.70	16.71
Crude	67.62	70.50	70.57	70.60	72.83

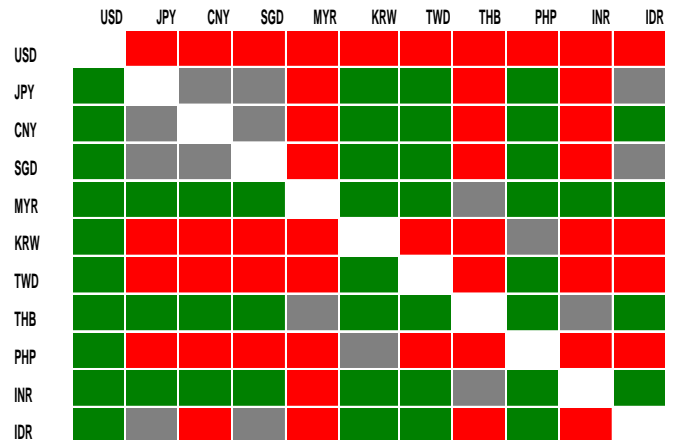
Source: OCBC Bank

**G10 FX Heat Map**



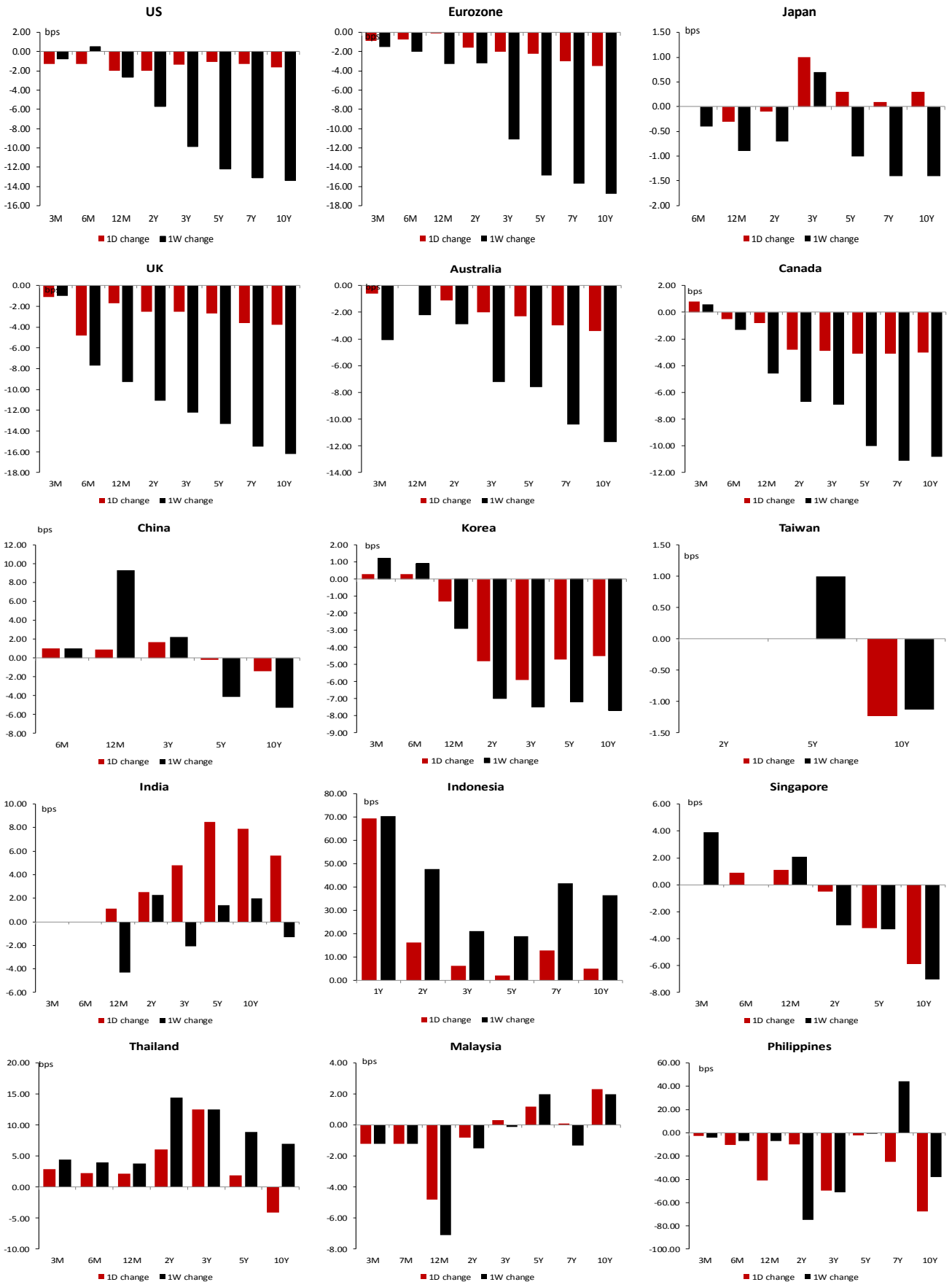
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



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