

Thursday, July 26, 2018

## FX Themes/Strategy/Trading Ideas

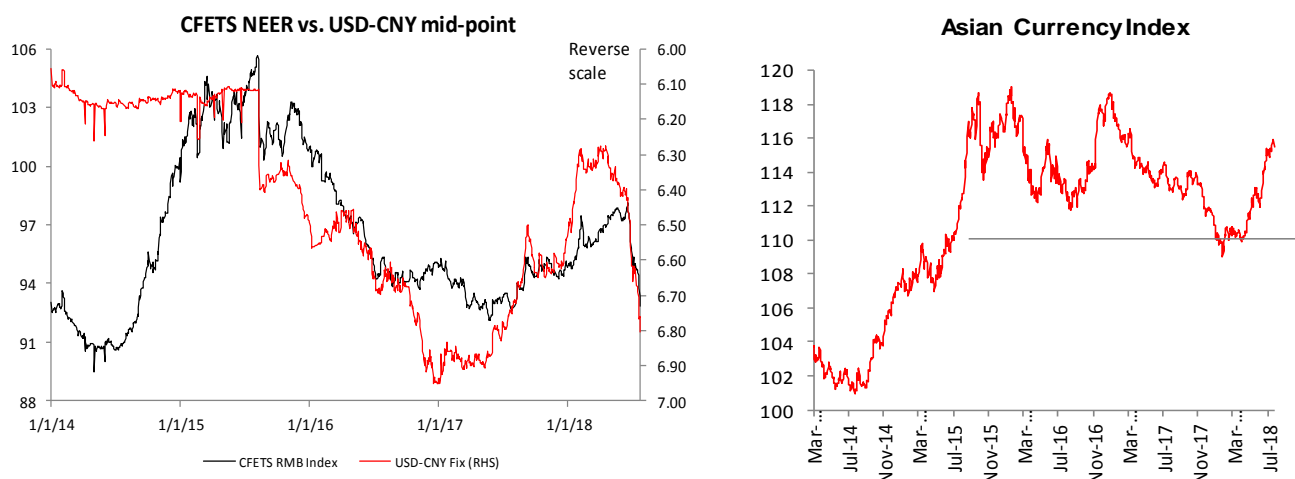
- The broad USD traded on the backfoot in the NY session, getting hit by a series of trade and Fed headlines. From the positive trade headlines, a general risk-positive climate also emerged, contributing to the cyclical currencies to outperforming within the G7 space.
- A deal between Trump and Juncker headlined the positive trade developments. NAFTA optimism and US Senate action to delay auto tariffs also lifted sentiments. Trump's stance on trade appeared to have flipped (maybe only temporarily), with him working towards "zero tariffs" between the EU and US. **The greater question is whether these positive trade developments will translate to a toning down of Sino-US trade tensions.**
- The DXY index stands around 94.15, towards the lower end of recent ranges. Given the new developments, we think there may be further USD downside into the end of the week on further paring of USD long positions. Nevertheless, **we see the trade headlines as largely noise, and an insufficient (in itself) to drive the broad USD beyond recent ranges. Thus, the pace of decline should ease once the DXY index reaches sub-94.00 levels.**
- A potentially more important US-centric development, on a structural basis, is news that a number of regional Fed presidents are looking for a "Powell put" to provide assurance against an inverted yield curve. **We have highlighted in this space that the flattening yield curve presents a material risk to the Fed's rate hike expectations, and this is a further confirmation of that view. With two more hikes in 2018 (ie. four hikes in 2018) priced in at the moment, any shift back towards three hikes in 2018 may lead to USD weakness on a more structural basis.** As a base case, we continue to expect a hike in the September FOMC meeting, providing the optionality of the fourth hike in 2018 to possibly come in in December.
- The calendar will be headlined by the ECB policy meeting (1145 GMT). We do not expect a material shake-up in policy guidance from Draghi. Watch also for US wholesale inventories (1230 GMT) and initial jobless claims (1230 GMT), and Tokyo area CPI (2330 GMT)

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## Asian FX

- For Asia, the question at the back of our minds is whether the shift in Trump's trade stance with respect to the EU can be extended to China. Watch out for any possible positive developments in the form of renewed negotiations with China. Nevertheless, we remain cognizant that the barriers are higher for the Sino-US case, given the scope of tariffs and cultural issues.
- **Any positive developments in the Sino-US trade front should provide some room for recovery for the battered EM Asian FX. We noted previously that the portfolio flows situation has been improving, but the reaction to this has been limited. A lifting of the spectre of trade war (even temporarily), should allow EM Asian FX to firm.**
- Note that overall risk sentiments have been improving over the past two sessions. Firmer US/EM equities overnight further complemented positive headlines. Our FX Sentiment Index (FXSI) made another jump towards the Risk-On zone, while remaining within the Risk Neutral territory. Note that the index is closest to the outright Risk-On zone since February this year.
- **Intra-day, the Asian Currency Index (ACI) should be led lower in-line with USD-CNY and the positive risk sentiments. Nevertheless, we remain cautious in over-interpreting the positive implications of the EU-US trade deal into the Sino-US situation.**
- **SGD NEER:** The SGD NEER is holding at +1.03% above its perceived parity level (1.3730), after hitting a high of +1.20% overnight. The NEER-implied USD-SGD thresholds continued to edge lower on renewed pressure on the USD. We continue to expect an intra-day range between the +0.80% (1.3621) and +1.20% (1.3567) thresholds to hold. At this juncture, we do not expect the USD-SGD to persist below the 1.3600 handle unless broad USD sentiments continue to sink.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within our expectations, at 6.7662 compared to 6.8040 on Wednesday. The CFETS RMB Index firmed marginally to 93.05, compared to 92.87 previously.



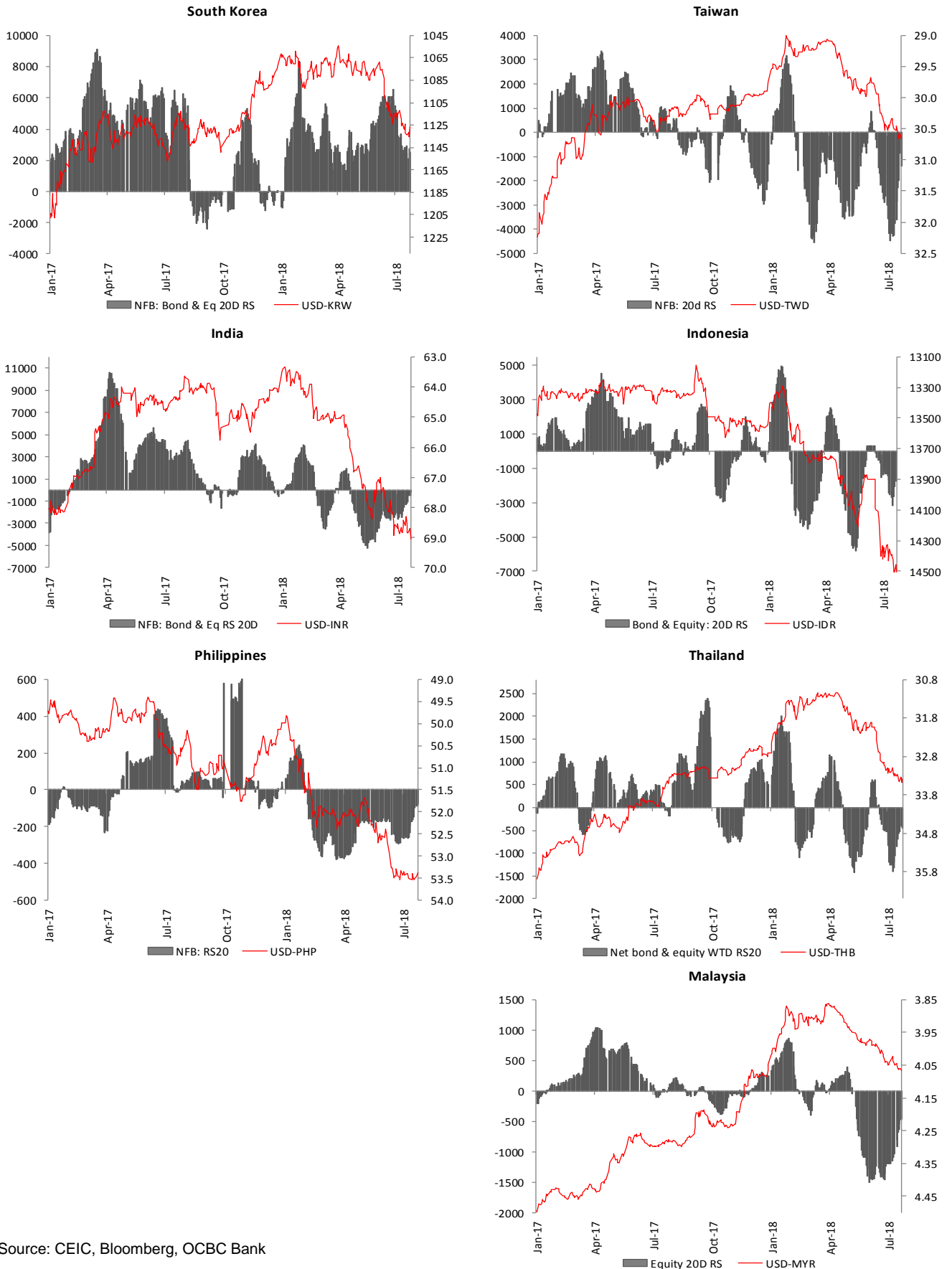
Source: OCBC Bank, Bloomberg

### 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 easing away from the 6.8000 handle; watch the index at 92.00 (2017 low) as the next waypoint
USD-KRW	↔/↑	Latest 2Q GDP in line with expectations; portfolio inflows compressing; govt downgrades inflation forecasts and growth outlook for 2018
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
USD-INR	↔	Persistent outflow momentum has been curtailed, now reaching effectively neutral levels; 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	↔/↑	BNM expected to be on hold until 2019; 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	↔/↑	Calls for further BSP rate hikes intensifying; Moody's maintain IG rating

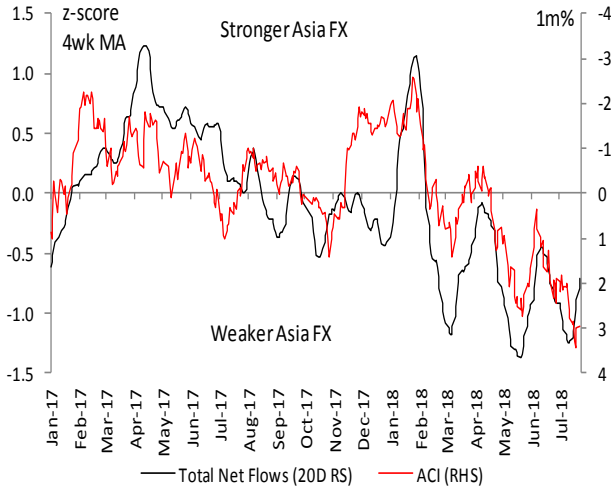
Source: OCBC Bank

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



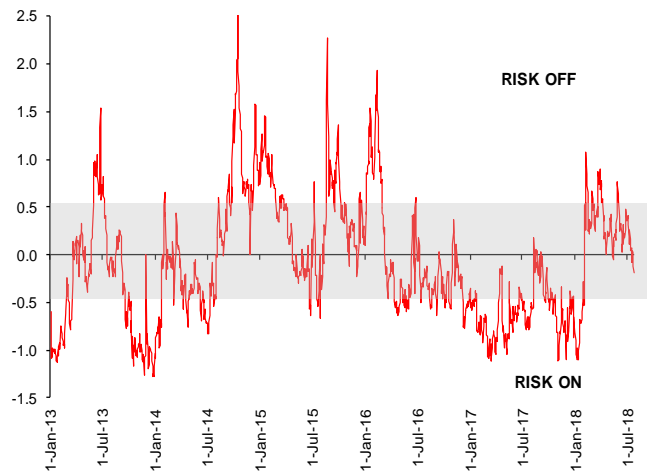
Source: CEIC, Bloomberg, OCBC Bank

**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	ITRXX	CNH	EUR
DXY	1.000	-0.184	0.155	-0.144	-0.278	-0.220	0.352	-0.180	0.226	0.112	0.181	-0.909
SGD	0.848	-0.211	0.182	-0.250	-0.403	-0.235	0.232	-0.077	0.298	0.243	0.140	-0.812
CHF	0.702	-0.290	0.300	0.322	-0.127	-0.467	0.780	-0.214	-0.333	-0.309	0.309	-0.491
CAD	0.652	-0.213	-0.317	-0.503	-0.139	0.024	-0.120	-0.109	0.594	0.314	-0.359	-0.733
PHP	0.456	-0.118	0.224	0.186	0.012	-0.448	0.408	-0.343	-0.153	-0.287	0.250	-0.252
KRW	0.376	0.488	0.863	0.663	0.302	-0.788	0.616	-0.676	-0.531	-0.685	0.855	-0.058
JPY	0.352	-0.007	0.591	0.699	0.127	-0.779	1.000	-0.469	-0.738	-0.677	0.618	0.005
MYR	0.256	0.388	0.895	0.593	0.056	-0.608	0.510	-0.402	-0.528	-0.517	0.895	-0.029
TWD	0.241	0.463	0.848	0.480	0.132	-0.526	0.367	-0.379	-0.376	-0.441	0.836	-0.045
IDR	0.222	0.358	0.902	0.630	-0.007	-0.427	0.466	-0.159	-0.600	-0.499	0.917	0.010
CNH	0.181	0.505	0.990	0.772	0.218	-0.707	0.618	-0.492	-0.715	-0.711	1.000	0.169
CNY	0.155	0.584	1.000	0.788	0.288	-0.695	0.591	-0.514	-0.703	-0.733	0.990	0.149
INR	0.004	0.099	0.594	0.360	-0.302	-0.114	0.143	0.176	-0.380	-0.204	0.616	0.091
THB	0.000	0.446	0.924	0.793	0.212	-0.720	0.683	-0.444	-0.788	-0.727	0.950	0.302
USGG10	-0.184	1.000	0.584	0.503	0.703	-0.317	-0.007	-0.542	-0.314	-0.510	0.905	0.292
NZD	-0.549	0.311	-0.318	0.026	0.483	0.139	-0.426	-0.222	0.049	-0.177	-0.325	0.495
AUD	-0.789	0.283	0.044	0.500	0.591	-0.001	-0.013	-0.087	-0.528	-0.486	0.062	0.859
GBP	-0.815	-0.173	-0.572	-0.171	0.125	0.379	-0.407	0.274	0.057	0.169	-0.549	0.622
EUR	-0.909	0.292	0.149	0.471	0.430	-0.117	0.005	-0.093	-0.551	-0.446	0.169	1.000

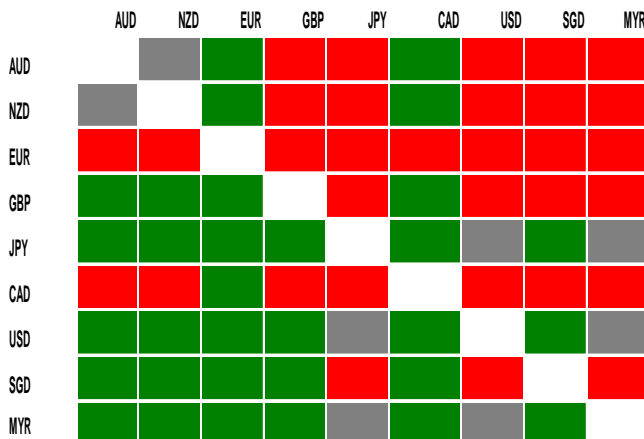
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1684	1.1700	1.1733	1.1763	1.1791
GBP-USD	1.3046	1.3200	1.3202	1.3258	1.3300
AUD-USD	0.7341	0.7400	0.7438	0.7472	0.7500
NZD-USD	0.6719	0.6800	0.6839	0.6857	0.6881
USD-CAD	1.3000	1.3025	1.3039	1.3041	1.3089
USD-JPY	110.10	110.57	110.79	111.00	113.09
USD-SGD	1.3527	1.3560	1.3599	1.3600	1.3705
EUR-SGD	1.5894	1.5900	1.5957	1.5979	1.6000
JPY-SGD	1.2200	1.2235	1.2275	1.2300	1.2400
GBP-SGD	1.7900	1.7933	1.7954	1.8000	1.8107
AUD-SGD	1.0100	1.0106	1.0115	1.0145	1.0156
Gold	1210.70	1216.95	1231.30	1265.72	1269.23
Silver	15.26	15.50	15.56	15.60	16.21
Crude	69.18	69.30	69.35	69.40	75.27

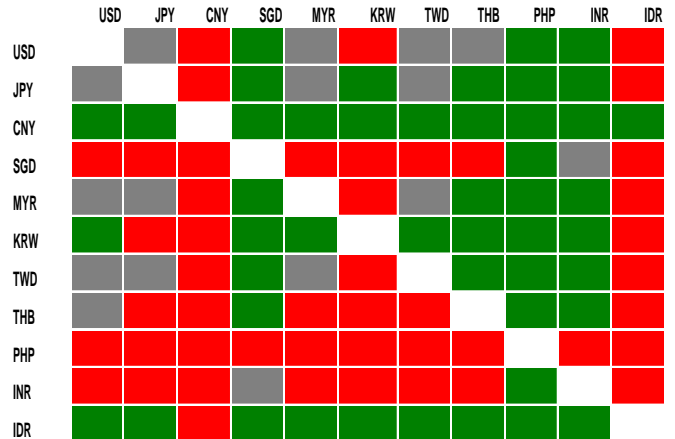
Source: OCBC Bank

**G10 FX Heat Map**



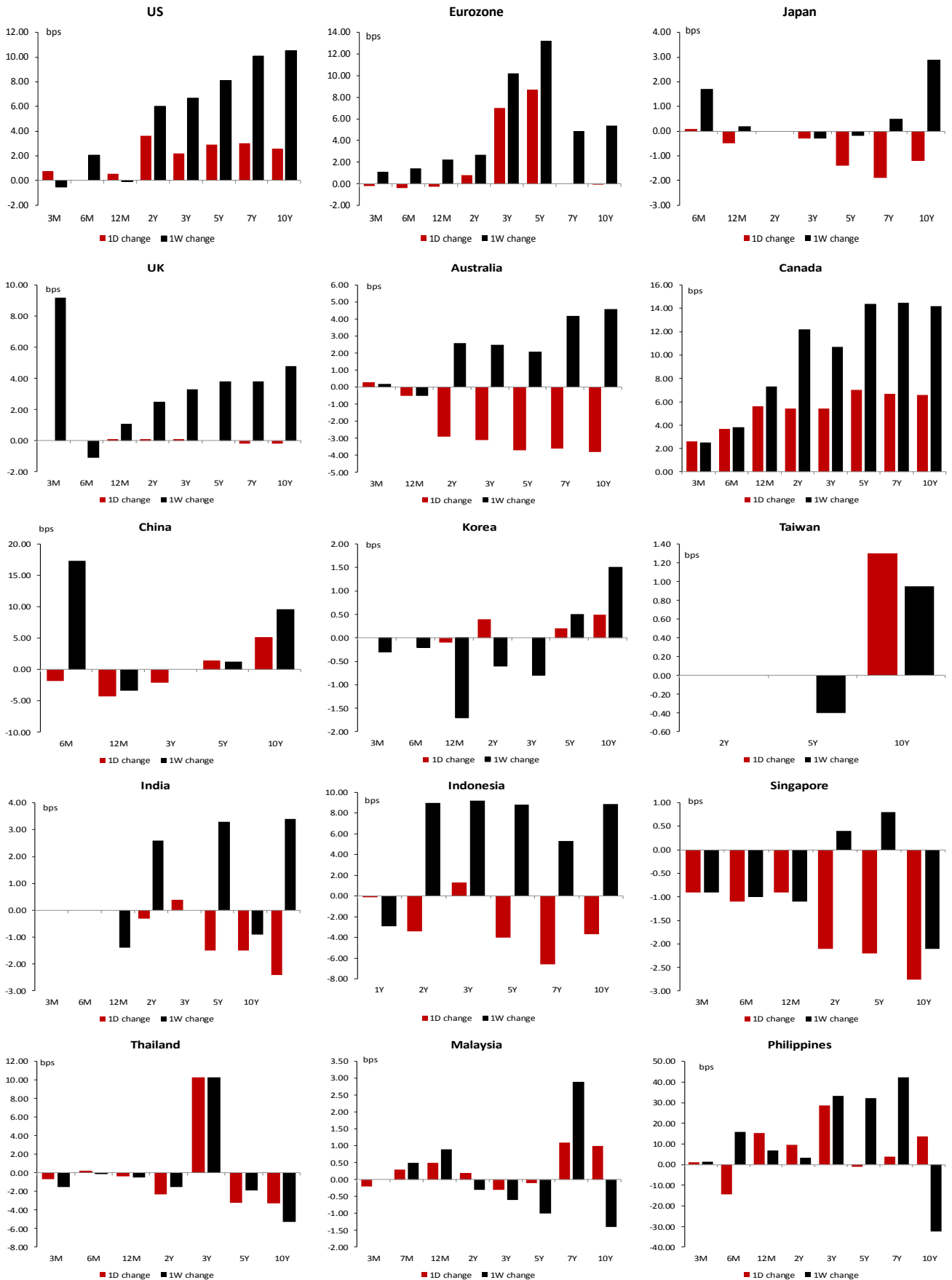
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



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