

Tuesday, June 26, 2018

FX Themes/Strategy/Trading Ideas

- The week started off in a broadly risk-off tone yesterday, with the cyclicals taking a hit, while the JPY outperformed. The EUR closed above the 1.1700 level after hitting a high of 1.1713.
- Overall, risk sentiments appear to be humming along with a persistent state of concern, without boiling over excessively. Note that the **FX Sentiment Index (FXSI)** is fluctuating just below the outright Risk-Off zone for the past four sessions. Markets may be desensitized by the regular, low impact trading of barbs. From this level, **pending a concrete escalation of tensions, we caution against chasing the JPY crosses significantly lower from here.**
- Despite Coeure reiterating the ECB's dovish stance, the EUR is no longer reacting negatively to such rhetoric. Nevertheless, the upcoming ECB minutes on Thursday may still potentially be a risk event. Political issues in Germany should also be a non-event. Upcoming Eurozone CPI prints on Thursday and Friday will coincide with US CPI and GDP prints, and present a good opportunity to re-assess the relative performance of the two economies. We think this comparison should guide the EUR going forward.
- On a more structural horizon, a constructive outlook in the USD will be dependent on (1) relative economic outperformance, (2) material political risk in Europe, and (3) a significant ramp-up into an escalated trade war situation.
- At this stage, the second and third points remain tail-end risks, with the baseline situation being periodic blow-ups. This may be sufficient to reduce the gradient of any USD decline, but should not be enough to shift the outlook. The question remains over whether the exceptional US economic performance relative to Europe will persist well into 2H 2018. At this juncture, we note that European economic prints have arrested its slowdown from 1Q, and may see further consolidation heading into 2H 2018.
- **Therefore, while we hold a slight bias for a firmer broad USD over the near term, we retain the USD-weakness thesis on a structural horizon. We expect global growth to stabilize into 2H 2018, allowing the market to refocus on USD impediments going forward.**
- On the central bank calendar, watch for ECB's Hansson (0800 GMT) and De Guindos (1200 GMT), BOE's McCafferty (0930 GMT), and Fed's Bostic (1715 GMT) and Kaplan (1745 GMT). On the data front, keep an eye on Richmond Fed manufacturing and consumer confidence (1400 GMT).

Treasury Research &
Strategy

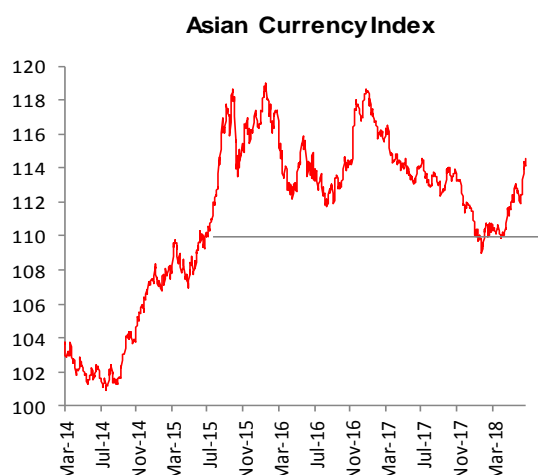
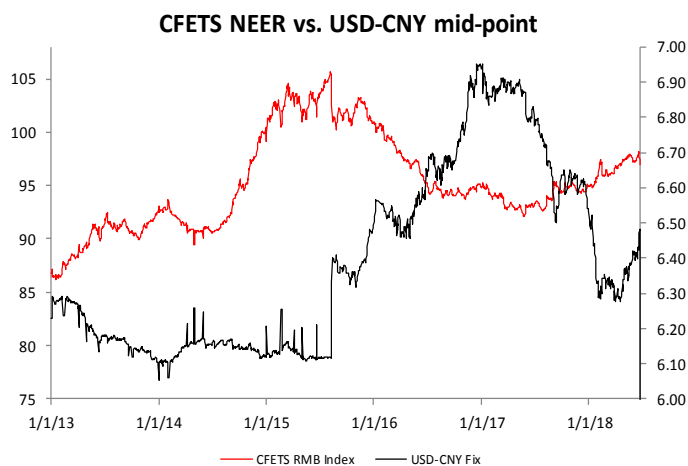
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Asian FX

- With the Sino-US trade tensions simmering but not boiling over, the overall risk sentiment continues to weigh on the Asian currencies. At this stage, an ongoing, low level form hostile trade exchanges may increasingly be factored in as a baseline, although an outright trade war may not materialize.
- Concrete escalation may occur when reciprocal import tariffs are actually imposed, although we are still some way from that. Should this comes to pass, we expect the USD-Asia to trade a significant leg higher. Indeed, overlaying the **Asian Currency Index (ACI)** with recent export performance suggests a weaker set of Asian currencies going forward.
- **With no easing of trade issues in sight, and the RMB complex still depreciating against the USD, expect the ACI to continue its grind higher on an intra-day basis.**
- In terms of **Asian portfolio flows**, outflows on the bond front are seen again in Indonesia post the Hari Raya holidays. Coupled with ongoing equity outflows, outflow momentum for Indonesia is picking up again after improvement before the holiday. The picture in the rest of Asia is the same, with outflows most severe in Taiwan equities. Outflows in the bond and equity fronts for Thailand remains unabated. Meanwhile, South Korean bonds continue to see inflow momentum, having been regarded as a relative safe haven in the region, and with the Bank of Korea comparatively behind the curve in terms of rate hikes.
- **Indonesia:** FM Sri Mulyani was cited saying that the government will work to “shield” the IDR in the “medium, long term”. The coordinated effort between the government and BI in defending the IDR may slow down the climb in USD-IDR relative to Asian peers, but not likely to reverse the trend. Note also the larger-than-expected trade deficit weighing.
- **SGD NEER:** The SGD NEER firmer this morning, standing near its perceived parity level (1.3614). The NEER-implied USD-SGD thresholds were firmer. We continue to expect the pair to move within -0.20% (1.3642) and +0.20% (1.3587) thresholds intra-day, although some support may be seen near the 1.3600 level. After a bullish close, we have a bias for the USD-SGD to trend higher on a multi-session horizon. Nevertheless, near term resistance at 1.3660 may provide a temporary cap. Note that CPI came in-line to firmer compared to expectations. Industrial production prints later today.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations, at 6.5180 compared to 6.4893 on Monday. The CFETS RMB Index weakened marginally to 96.54, compared to 97.00 previously. Note that the midpoint fix is above 6.50 for the first time since Jan 2018. Even with the recent depreciation, the USD-CNY is still one of the stronger performing currencies year-to-date and the CFETS basket is actually firmer year-to-date. As such, there may not be a discretionary need to slow down the rate of depreciation in the RMB complex at this stage.



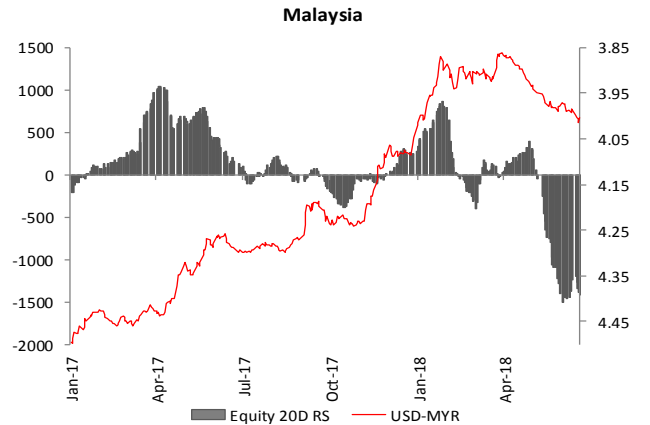
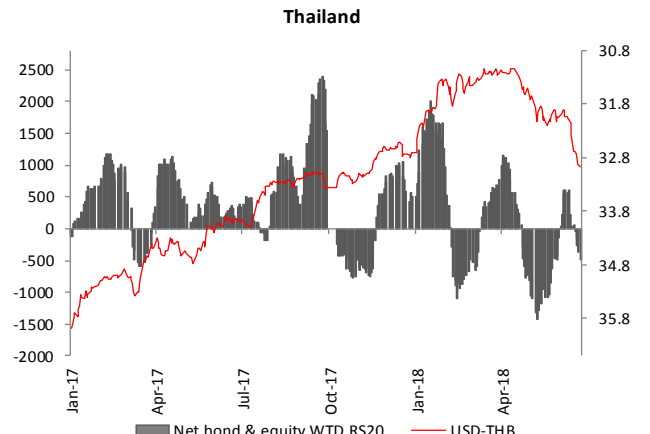
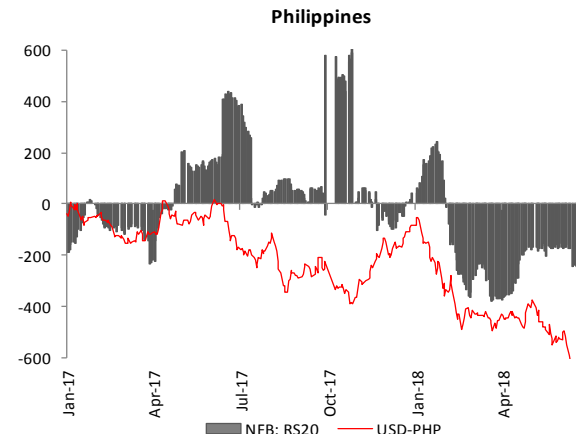
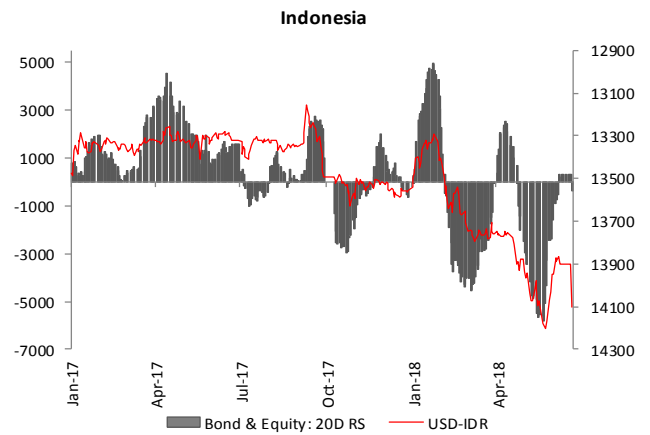
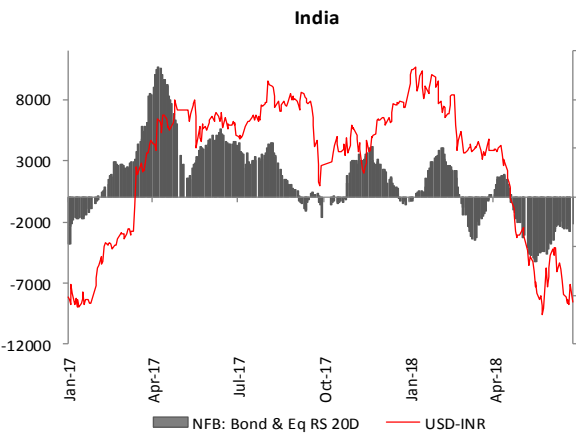
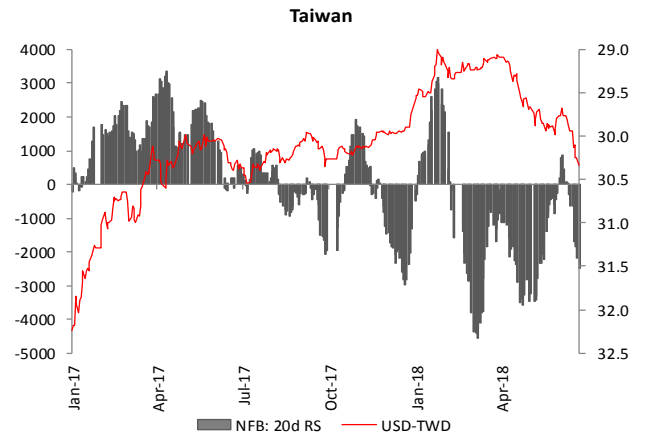
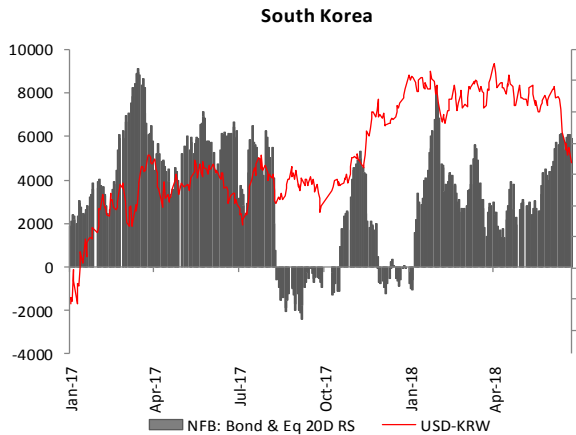
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	Sino-US trade tensions reigniting, 6 July is the key date; 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; RBI ease foreign ownership caps on government bonds while using OMO to support the local bond market
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 hike expected this week; wider than expected trade balance negative for IDR
USD-THB	↑	BOT remains a laggard among the Asian central banks, keeping rates unchanged in the latest meeting; note official tolerance over weakening THB; 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

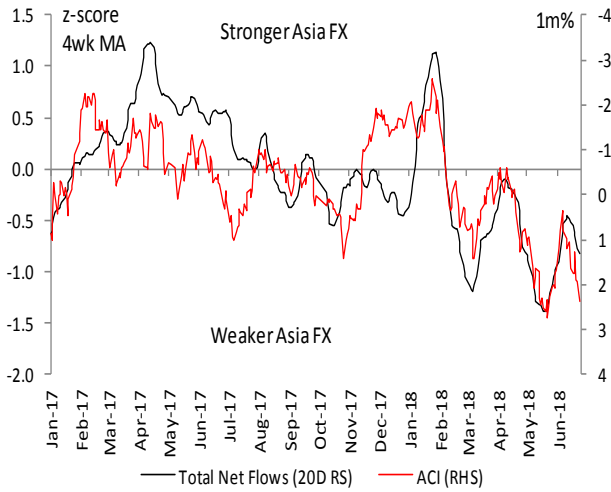
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



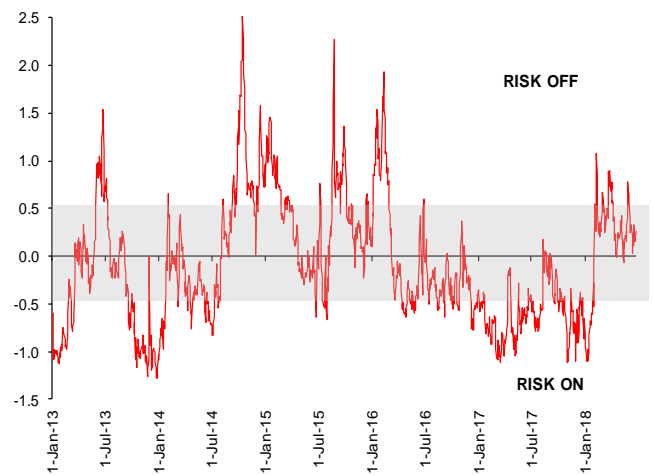
Source: CEIC, Bloomberg, OCBC Bank

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	-0.395	0.578	-0.155	-0.657	-0.573	0.205	0.049	0.257	-0.023	0.646	-0.959
USGG10	0.897	1.000	-0.127	0.321	0.117	-0.437	-0.518	0.382	-0.138	-0.016	-0.236	0.289
CNY	0.818	-0.330	0.929	-0.145	-0.856	-0.758	0.191	0.369	0.404	0.262	0.953	-0.599
SPX	0.784	-0.502	0.918	1.000	-0.336	-0.896	-0.615	0.112	0.645	0.742	0.908	-0.634
MSELCPAF	0.748	-0.111	0.876	0.087	1.000	-0.711	-0.881	0.415	0.216	0.195	0.145	0.910
CRY	0.743	-0.311	0.755	-0.022	-0.706	1.000	-0.684	0.274	0.214	0.344	0.329	0.779
JPY	0.707	-0.360	0.956	-0.097	-0.821	-0.818	1.000	0.319	0.271	0.446	0.381	0.960
CL1	0.675	-0.123	0.953	0.031	-0.829	-0.818	0.419	1.000	0.197	0.276	0.237	0.949
VIX	0.672	-0.440	0.945	-0.334	-0.948	-0.588	0.016	0.506	1.000	0.616	0.456	0.945
ITRXXK	0.646	-0.312	0.987	-0.203	-0.864	-0.729	0.122	0.459	0.478	1.000	0.346	-0.385
CNH	0.622	0.033	0.755	0.269	-0.645	-0.772	0.609	0.235	0.118	0.157	0.780	-0.407
EUR	0.578	-0.316	1.000	-0.247	-0.889	-0.713	0.117	0.358	0.515	0.385	0.987	-0.408
USD	0.573	-0.306	0.869	-0.069	-0.778	-0.701	0.270	0.387	0.536	0.597	0.876	-0.409
SGD	0.205	0.696	0.117	0.834	0.118	-0.629	1.000	-0.348	-0.660	-0.516	0.122	-0.006
JPY	-0.395	1.000	-0.316	0.867	0.525	-0.219	0.696	-0.447	-0.836	-0.598	-0.312	0.526
CL1	-0.870	0.304	-0.827	0.049	0.793	0.735	-0.280	-0.277	-0.313	-0.215	-0.850	0.691
VIX	-0.871	0.486	-0.805	0.295	0.808	0.631	-0.024	-0.330	-0.509	-0.345	-0.847	0.734
ITRXXK	-0.934	0.457	-0.662	0.257	0.784	0.531	-0.077	-0.206	-0.385	-0.116	-0.655	0.864
CNH	-0.959	0.526	-0.408	0.306	0.581	0.340	-0.006	-0.057	-0.328	0.004	-0.385	1.000

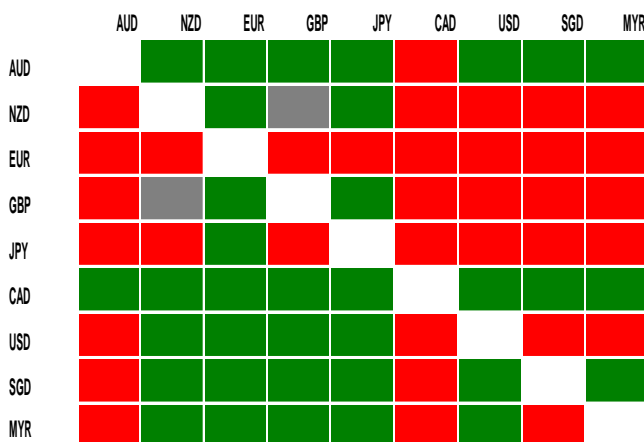
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1539	1.1700	1.1714	1.1800	1.1834
GBP-USD	1.3163	1.3200	1.3285	1.3300	1.3457
AUD-USD	0.7346	0.7400	0.7408	0.7500	0.7540
NZD-USD	0.6826	0.6855	0.6889	0.6900	0.6992
USD-CAD	1.2941	1.3200	1.3293	1.3300	1.3382
USD-JPY	108.93	109.00	109.46	109.62	110.00
USD-SGD	1.3384	1.3600	1.3610	1.3654	1.3662
EUR-SGD	1.5900	1.5910	1.5943	1.5957	1.6000
JPY-SGD	1.2210	1.2400	1.2434	1.2440	1.2478
GBP-SGD	1.8060	1.8065	1.8081	1.8100	1.8163
AUD-SGD	0.9987	1.0000	1.0082	1.0090	1.0100
Gold	1259.15	1260.00	1266.00	1300.00	1302.79
Silver	16.17	16.30	16.31	16.40	16.55
Crude	68.20	68.23	68.29	68.30	68.65

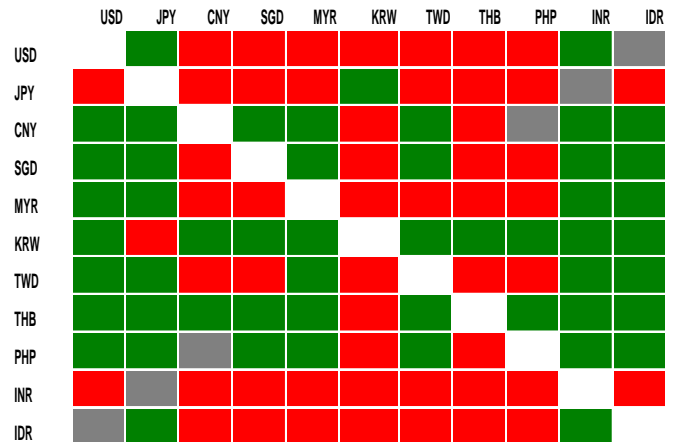
Source: OCBC Bank

G10 FX Heat Map



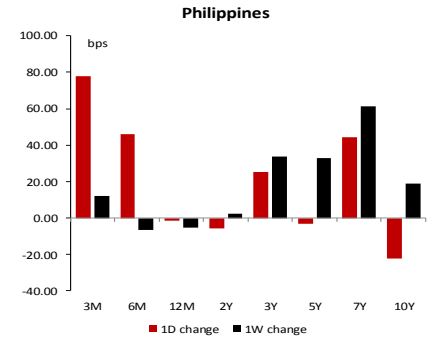
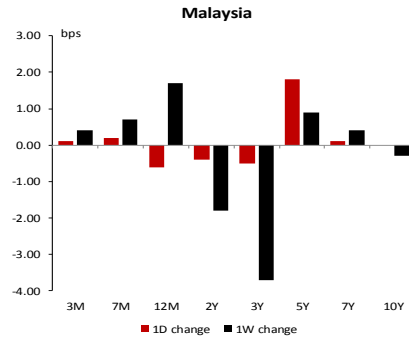
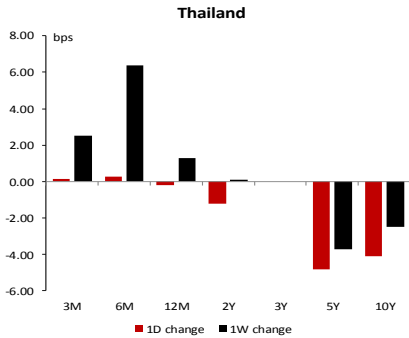
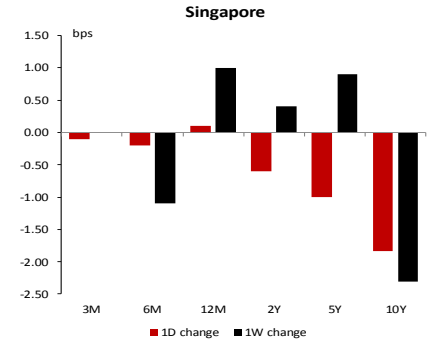
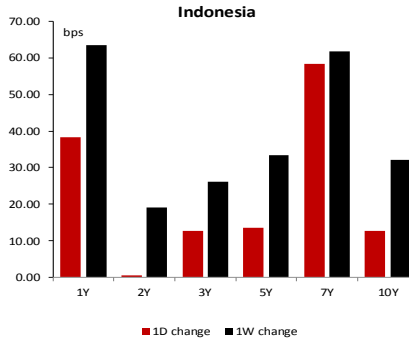
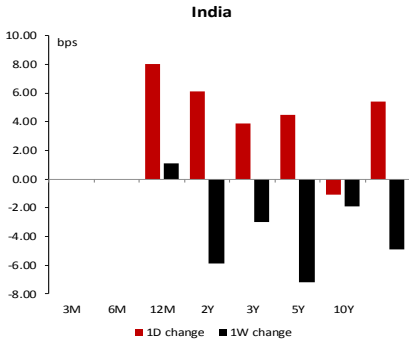
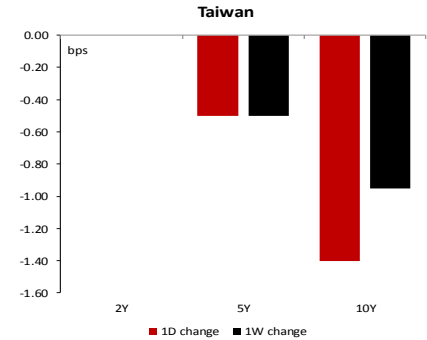
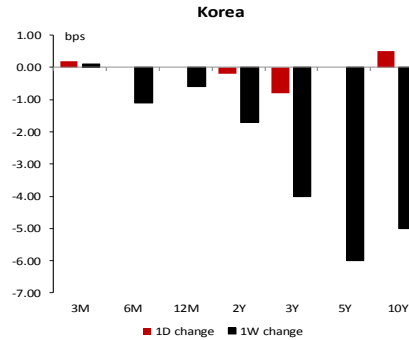
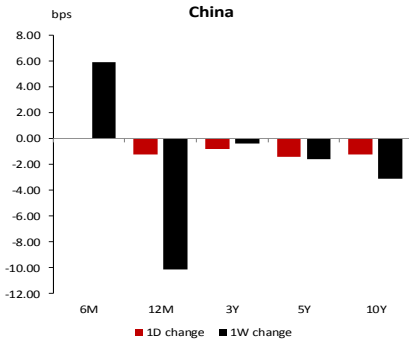
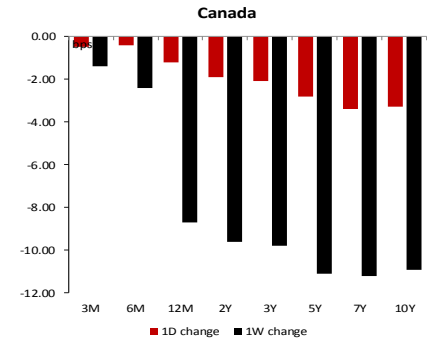
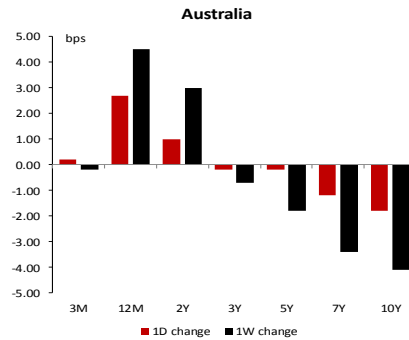
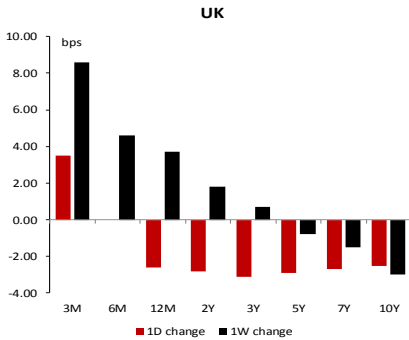
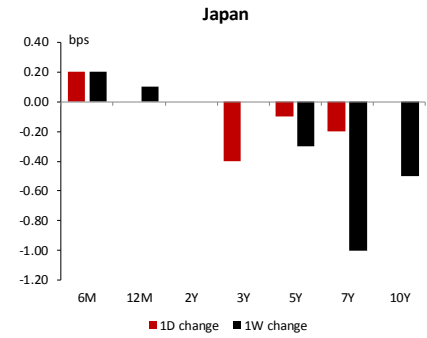
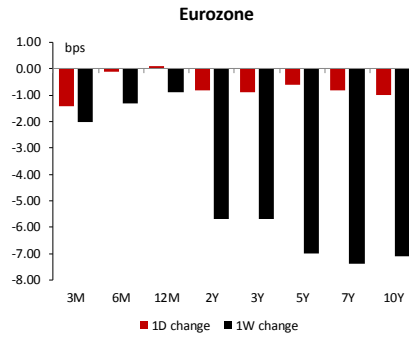
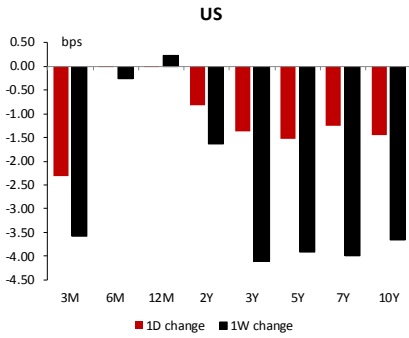
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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