

Monday, August 27, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The broad USD sank on Friday after Powell's speech at Jackson Hole and the reinstatement of the counter-cyclical factor in the USD-CNY midpoint fixing. The AUD outperformed as investors look past the political upheavals, while the JPY underperformed the rest of the G7 currencies.
- Prior to Powell's speech, we highlighted that it was more likely for Powell to surprise on the dovish side, rather than on the hawkish side. Indeed, while he reiterated the existing Fed stance ("gradual process of normalization remains appropriate"), he nuanced it with the observation that there is "no clear sign of an acceleration (in inflation) above 2%". This was taken as a dovish tilt.
- On a longer term perspective, Powell highlighted the twin dilemmas of "needlessly shortening the expansion" versus "risking a destabilizing overheating", and then presented a "risk-management strategy". Overlay this with the fact that we will see a press conference after every FOMC meeting next year, **we may see a situation whereby the FOMC decides on its action based on the balance of risks presented by the latest data** (with core PCE inflation first among equals among the economic indicators) **prior to each meeting, before using the press conference to explain that decision. Therefore, the key horizon to consider in 2019 may be the intra-meeting period, meeting after meeting, rather than the year-ahead number of hikes shown in the dot plots.**
- For now, the question is how long the USD sell-off will persist post-Jackson Hole. The level to eye is the 55-day MA for the DXY index, which nests just south of the 95.00 handle. Movements around that level should dictate broad USD directionality up till the core PCE inflation print on Thursday, which should provide another opportunity for re-assessment. **More importantly though, we think the speech itself may not be sufficient to spark a sustained downtrend in the USD.** For one, implied probabilities for the potential December rate hike remains static, suggesting that the market expectations of the Fed's trajectory has not shifted significantly (yet).
- On the **CFTC** front, leveraged accounts continue to build on their implied long USD positions, while the asset managers pared their implied short USD positions. At this point, the implied long USD positions for the leveraged accounts stand at almost 2 S.D. above the average. We continue to watch for excuses that may spark an unwind in these positions.
- Post-Jackson Hole, the central bank calendar is relatively quiet this week, with ECB's Praet (Tue), De Guindos (Fri) and BOJ's Suzuki (Wed) scheduled. On

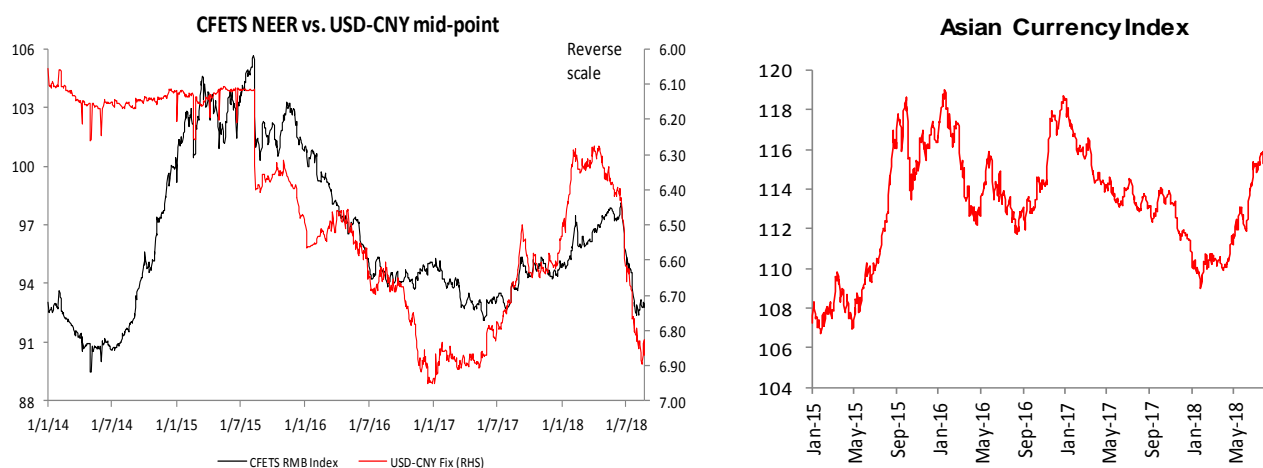
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the data front, watch for German IFO today (0800 GMT). Later in the week, watch for US 2Q GDP revision (Wed) and PCE core inflation (Thu).

Asian FX

- China-watching will be key again this week, as the PBoC announced the reinstatement of the counter-cyclical factor (CCF) in the daily midpoint fix. **This should set a strong directional cue for the RMB complex in the near term. Further out, apart from the broad USD direction, much will have to depend on the performance of the domestic Chinese economy. A sustained slowdown may cause RMB weakness to slowly seep in again, while a recovery should put the 7.00 handle out of sight quickly.**
- **Nevertheless, expect the EM Asian currencies to draw support from the RMB complex in the near term. With the USD also nursing wounds from Jackson Hole, we expect the Asian Currency Index (ACI) to ease lower intra-day. Further out, the spectre of trade war still looms.**
- Amongst the EM Asian currencies, we expect the THB to benefit the most in any upswing afforded by RMB stability and USD weakness. Recent strong economic prints have allowed the Bank of Thailand (BOT) to signal a shift away from its excessively accommodative policy stance. We look for at least one rate hike from the BOT before the year-end. In terms of portfolio flows, even though Thailand experienced equity outflows in line with other Asian economies post-Turkey, it was offset by strong bond inflows. This allowed the inflow momentum on a rolling 20-day basis to remain on the upside, in contrast to the rest of the Asian economies. This should provide further tailwinds for the THB.
- In terms of **Asian net portfolio flows**, flow dynamics continued to improve into the end of last week. Countries in South Asia saw improvements in bond flows, although equity flows remained somewhat mixed. In North Asia, equity flows for Taiwan continued to flip between inflows and outflows in an almost daily basis. Meanwhile, South Korea continues to enjoy inflows on both the bond and equity fronts.
- **SGD NEER:** The SGD NEER rose to +1.19% above its perceived parity level (1.3869) this morning, led primarily by USD and MYR weakness. The NEER-implied USD-SGD thresholds fell alongside the broad USD. Intra-day movements may be capped within the +0.90% (1.3691) and +1.30% (1.3623) thresholds.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, by more than expected after the CCF was reinstated, at 6.8508 compared to 6.8710 on Friday. The CFETS RMB Index edged lower to 92.65, from 92.77 previously.



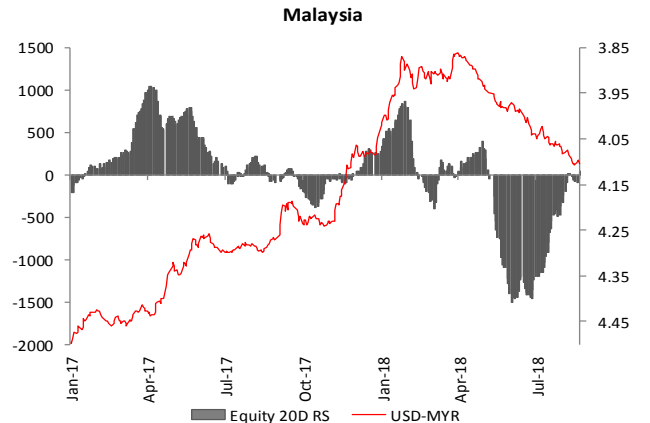
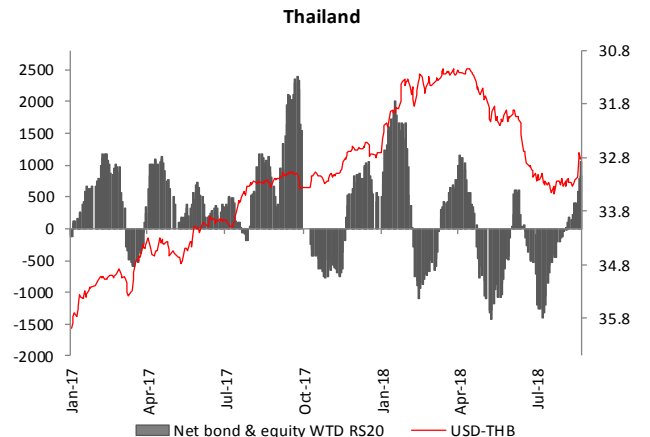
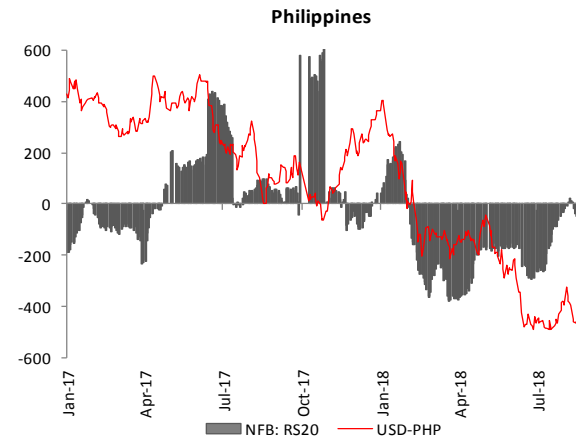
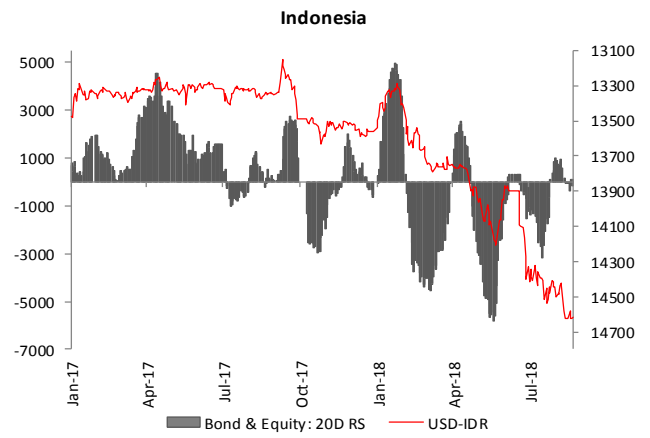
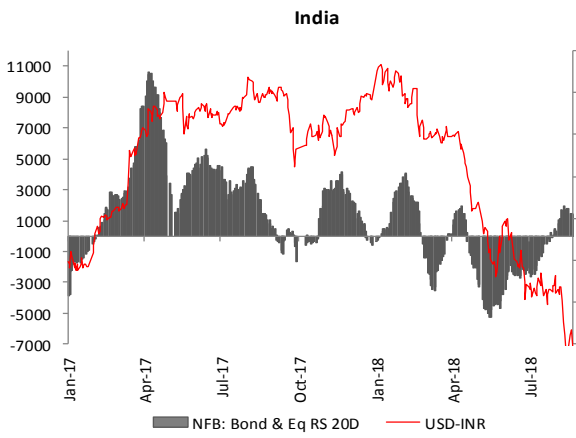
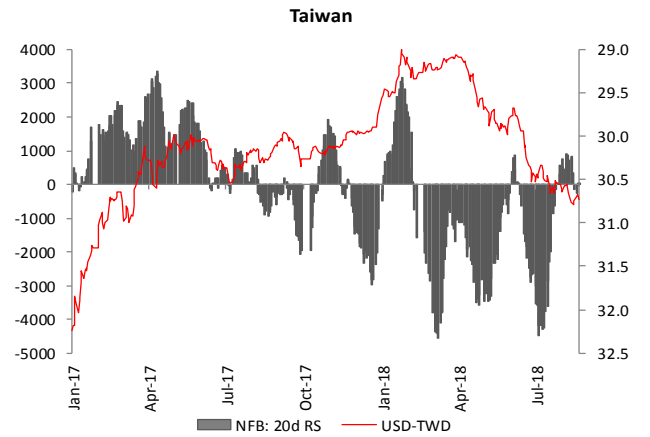
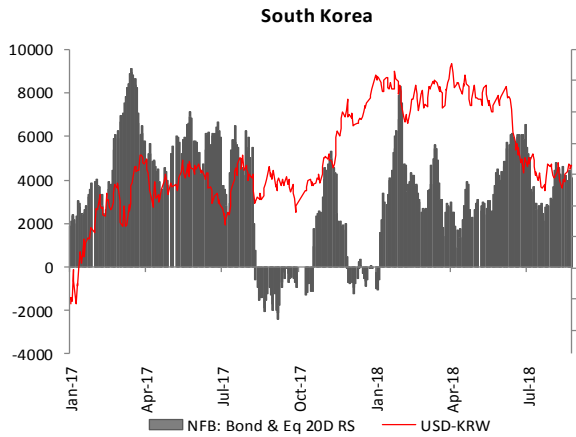
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↓	Re-instatement of the counter-cyclical factor should give a clear directionality in the short term.
USD-KRW	↔/↓	Expect to track RMB movements; weaker than expected unemployment print may douse rate hike expectations; BOK meeting in focus;
USD-TWD	↔/↓	Expect to track RMB movements; flow dynamics still fluid with no clear directionality
USD-INR	↔/↓	Net inflow momentum in a rolling 20D basis starting to moderate; RBI intervention on the pair seemed to ease at levels north of 70, signaling greater official tolerance in the currency
USD-SGD	↔/↓	Pause in broad USD momentum cap near term advances in the pair; another firm core inflation print to fuel speculation for a tightening move by the MAS in October, do not rule out this possibility yet
USD-MYR	↔	BNM expected to be on hold until 2019; equity outflows easing; with 4.08 and 4.10 resistances quickly broken, there appears to be little catalyst for MYR strengthening
USD-IDR	↔	IDR may be more exposed to EM jitters due to widening CA deficit and high percentage of foreign ownership in government bonds; asymmetric reaction to broad USD movements; govt looking to reduce foreign ownership of bonds to around 20% from almost 40% now
USD-THB	↔/↓	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support; inflow momentum still strong
USD-PHP	↔	BSP rate hiked 50 bps, as expected by some quarters; BSP retains a hawkish stance, ready to hike further if inflation remains out of control

Source: OCBC Bank

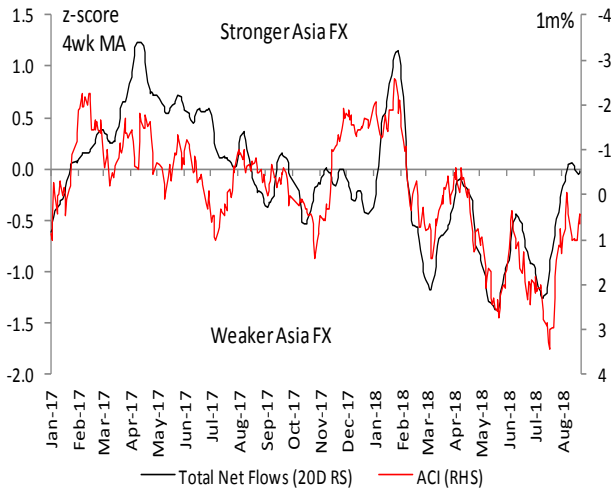
USD-Asia VS. Net Capital Flows



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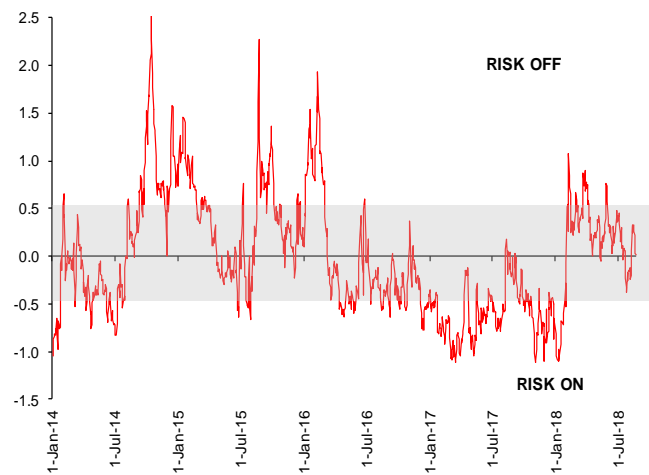
Source: CEIC, Bloomberg, OCBC Bank

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	-0.438	0.844	0.068	-0.721	-0.776	-0.475	-0.757	0.395	0.930	0.720	-0.992
SGD	0.954	-0.418	0.901	-0.036	-0.716	-0.751	-0.358	-0.663	0.478	0.852	0.862	-0.948
CNY	0.844	-0.423	1.000	-0.114	-0.762	-0.801	-0.410	-0.714	0.536	0.848	0.844	-0.846
TWD	0.811	-0.747	0.789	0.153	-0.900	-0.863	-0.508	-0.663	0.505	0.750	0.594	-0.785
CAD	0.808	-0.303	0.709	-0.186	-0.459	-0.600	-0.370	-0.604	0.582	0.735	0.623	-0.782
CNH	0.720	-0.091	0.844	-0.263	-0.491	-0.541	-0.171	-0.464	0.482	0.641	1.000	-0.747
KRW	0.701	0.101	0.670	-0.291	-0.484	-0.335	-0.150	-0.299	0.435	0.732	0.723	-0.731
MYR	0.700	-0.884	0.659	0.497	-0.880	-0.825	-0.564	-0.595	0.212	0.664	0.338	-0.647
INR	0.654	-0.865	0.711	0.408	-0.823	-0.790	-0.541	-0.507	0.375	0.592	0.408	-0.600
IDR	0.631	-0.859	0.635	0.353	-0.868	-0.773	-0.477	-0.488	0.359	0.563	0.444	-0.582
PHP	0.520	-0.806	0.548	0.156	-0.684	-0.733	-0.557	-0.520	0.517	0.444	0.356	-0.481
CHF	0.437	0.526	0.300	-0.290	-0.124	-0.045	0.091	-0.304	-0.059	0.478	0.404	-0.495
THB	0.274	0.640	0.216	-0.631	0.024	0.134	0.327	-0.130	0.060	0.348	0.284	-0.333
USGG10	-0.438	1.000	-0.423	-0.544	0.631	0.673	0.641	0.393	-0.205	-0.436	-0.091	0.373
JPY	-0.475	0.641	-0.410	-0.340	0.503	0.610	1.000	0.567	-0.245	-0.615	-0.171	0.482
AUD	-0.850	0.623	-0.822	-0.011	0.720	0.780	0.352	0.587	-0.564	-0.712	-0.708	0.813
GBP	-0.902	0.671	-0.733	-0.379	0.700	0.769	0.582	0.740	-0.189	-0.836	-0.509	0.864
NZD	-0.930	0.630	-0.732	-0.242	0.647	0.781	0.547	0.732	-0.333	-0.826	-0.614	0.905
EUR	-0.992	0.373	-0.846	-0.020	0.711	0.769	0.482	0.764	-0.406	-0.946	-0.747	1.000

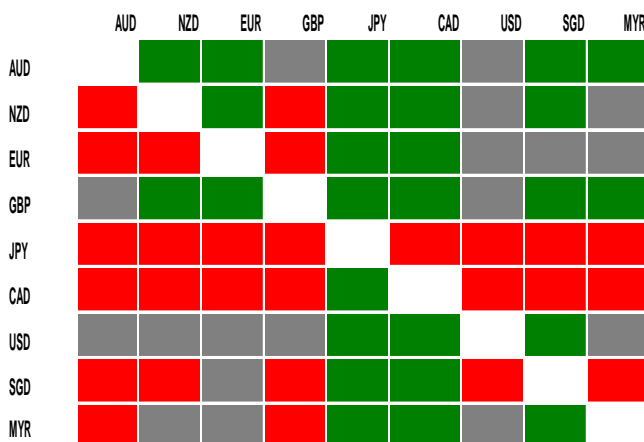
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1611	1.1630	1.1700	1.1735
GBP-USD	1.2662	1.2800	1.2859	1.2900	1.3055
AUD-USD	0.7216	0.7300	0.7332	0.7375	0.7400
NZD-USD	0.6545	0.6600	0.6697	0.6700	0.6753
USD-CAD	1.2962	1.3000	1.3015	1.3100	1.3129
USD-JPY	110.80	111.00	111.06	111.95	112.00
USD-SGD	1.3583	1.3600	1.3637	1.3653	1.3700
EUR-SGD	1.5800	1.5852	1.5861	1.5900	1.5954
JPY-SGD	1.2182	1.2200	1.2279	1.2294	1.2300
GBP-SGD	1.7455	1.7500	1.7537	1.7600	1.7823
AUD-SGD	0.9950	0.9980	1.0000	1.0068	1.0151
Gold	1172.14	1200.00	1206.00	1228.15	1228.83
Silver	14.33	14.80	14.83	14.90	15.54
Crude	65.18	68.70	68.71	68.80	69.09

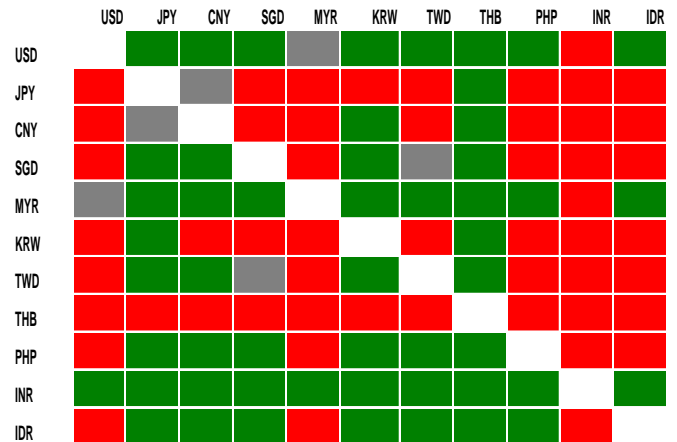
Source: OCBC Bank

G10 FX Heat Map



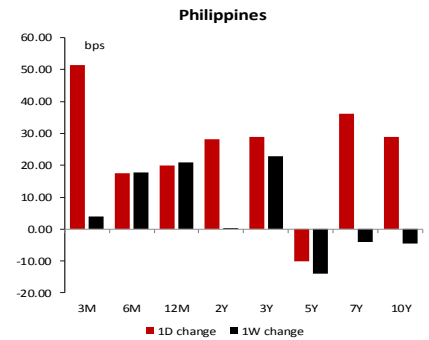
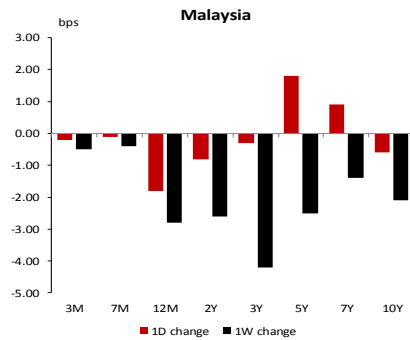
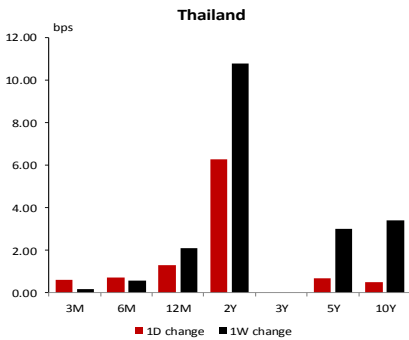
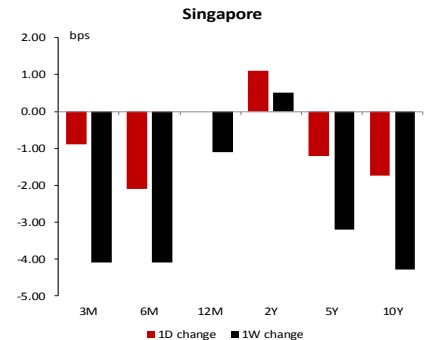
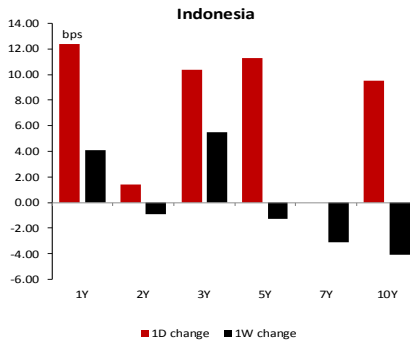
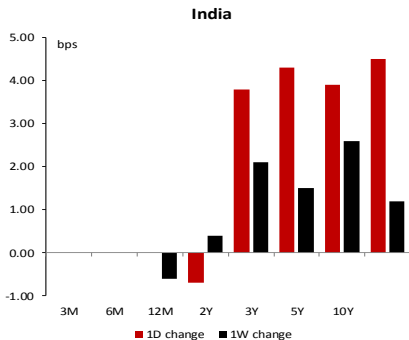
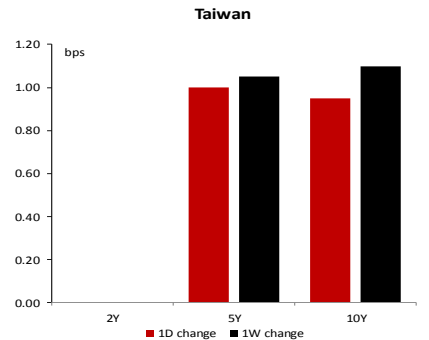
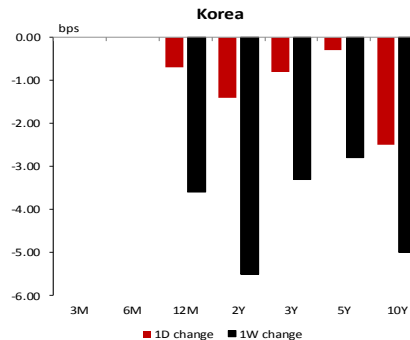
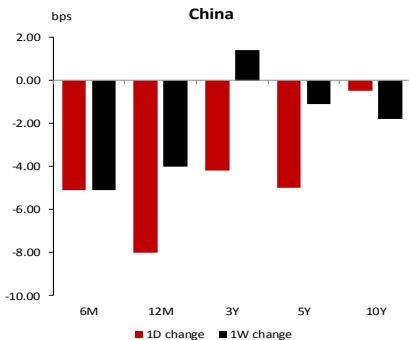
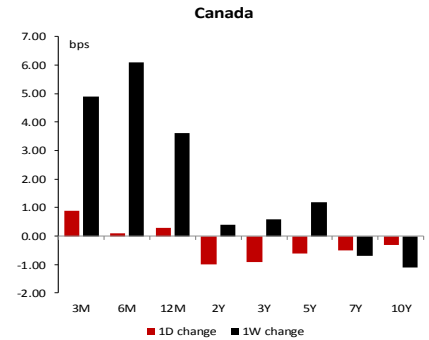
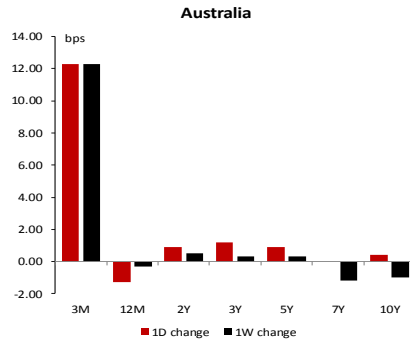
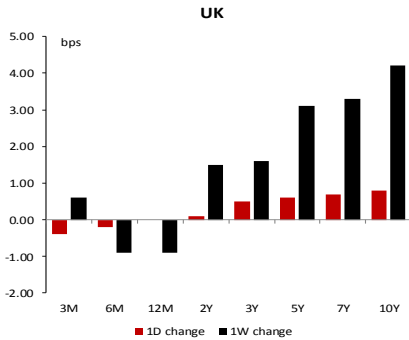
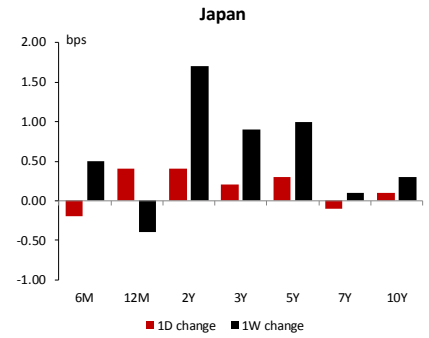
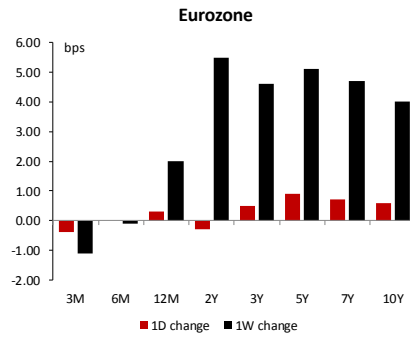
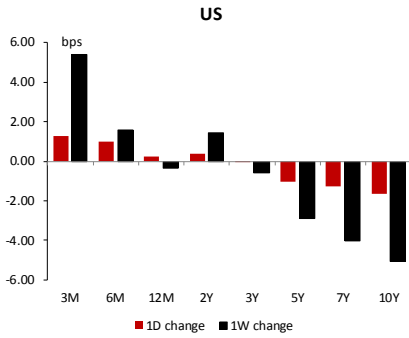
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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