

Friday, July 27, 2018

FX Themes/Strategy/Trading Ideas

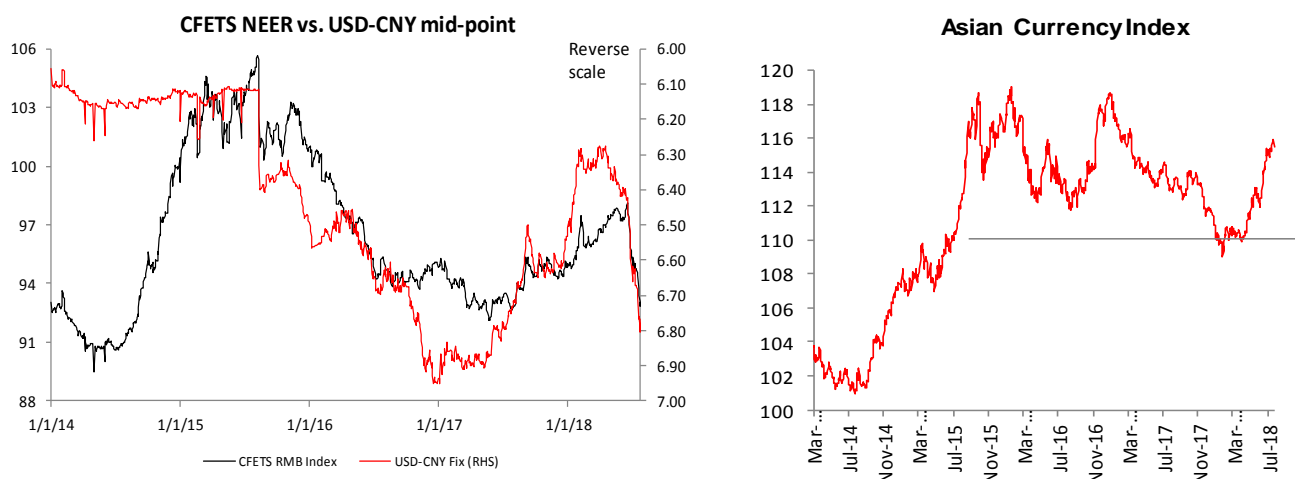
- A slew of weaker than expected economic prints did not slow down the USD overnight. The broad USD regained its footing in the NY session, after reaching a low of 94.08 in the Asian session. The DXY index returned to the middle of the recent range.
- The **European Central Bank** (ECB) policy meeting was relatively low-key, and provided little new information. Draghi did not take the opportunity to refine the interest rate guidance for 2019, with interest rates expected to stay unchanged “at least through the summer of 2019”. The EUR was taken lower on the back of the ECB meeting. Nevertheless, **we remain constructive on the EUR, although a better entry point may present itself next week.**
- The attention shifts to the **Bank of Japan** (BOJ) meeting next Tuesday, before the FOMC (Wed) and BOE (Thu) policy meetings. At this juncture, we think it is premature to expect an official change in the yield curve control target, though some flexibility may had in the form of a wider tolerance range to the topside of the “around 0%” target for the 10y JGB yield. **Expect volatility amongst the major pairs ahead of these central bank risk events.**
- On the US front, a slew of data prints, headlined by initial jobless claims, came in weaker than expected. This sets the stage for the US GDP prints later today (1230 GMT) and PCE inflation next Tuesday. Meanwhile, note further positives in the US trade front, with USTR Lighthizer hinting at a possible NAFTA deal by next month.
- **Overall, despite various distractions this week, the broad USD remains firmly entrenched within its recent range. We look to the central bank meetings next week to potentially present more structural drivers.**
- Apart for US GDP, the data calendar is relatively light, with French 2Q GDP (0530 GMT) also of note.

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Asian FX

- In this space yesterday, we contemplated the possible implications of the softening of President Trump's trade stance with respect to EU and NAFTA on the Sino-US trade situation. We may have the answer from Lighthizer overnight. He downplayed any prospect of a trade compromise with China in the near term.
- **In this context, we think the Sino-US trade situation may turn more difficult, especially if the positive developments with EU and NAFTA afford the US more room to be firm with China.** We note a number of peripheral developments, such as the failure of the Qualcomm/NXP deal, may not bode well. Note also that the China and US representatives traded colourful language at a WTO meeting.
- Nevertheless, risk sentiments continue to move in the positive direction. The **FX Sentiment Index (FXSI)** continues to push closer to the outright Risk-On zone.
- In terms of **Asian net portfolio flows**, note that the latest print showed inflows into North Asia, with South Korea benefitting on both the bond and equity fronts, and Taiwan benefitting on the equity front. The situation in South Asia is more mixed. Outflows were seen in Indian equities and Indonesian bonds, while inflows were observed on the Thai bond and equity markets.
- **Overall, we think the improvement in risk sentiments will have limited impact on the Asian currencies. For today, expect the Asian currencies to return gains made yesterday, especially if attention reverts to Sino-US trade issues.**
- **SGD NEER:** The SGD NEER is again firmer at +1.11% above its perceived parity level (1.3776). The NEER-implied USD-SGD thresholds firmed on the back of a recovering USD. The +0.80% (1.3667) and +1.20% (1.3613) thresholds should guide price action intra-day. Any dive to sub-1.3600 levels should remain short-lived.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within our expectations, at 6.7942 compared to 6.7662 on Thursday. The CFETS RMB Index firmed marginally to 92.94, compared to 93.05 previously.



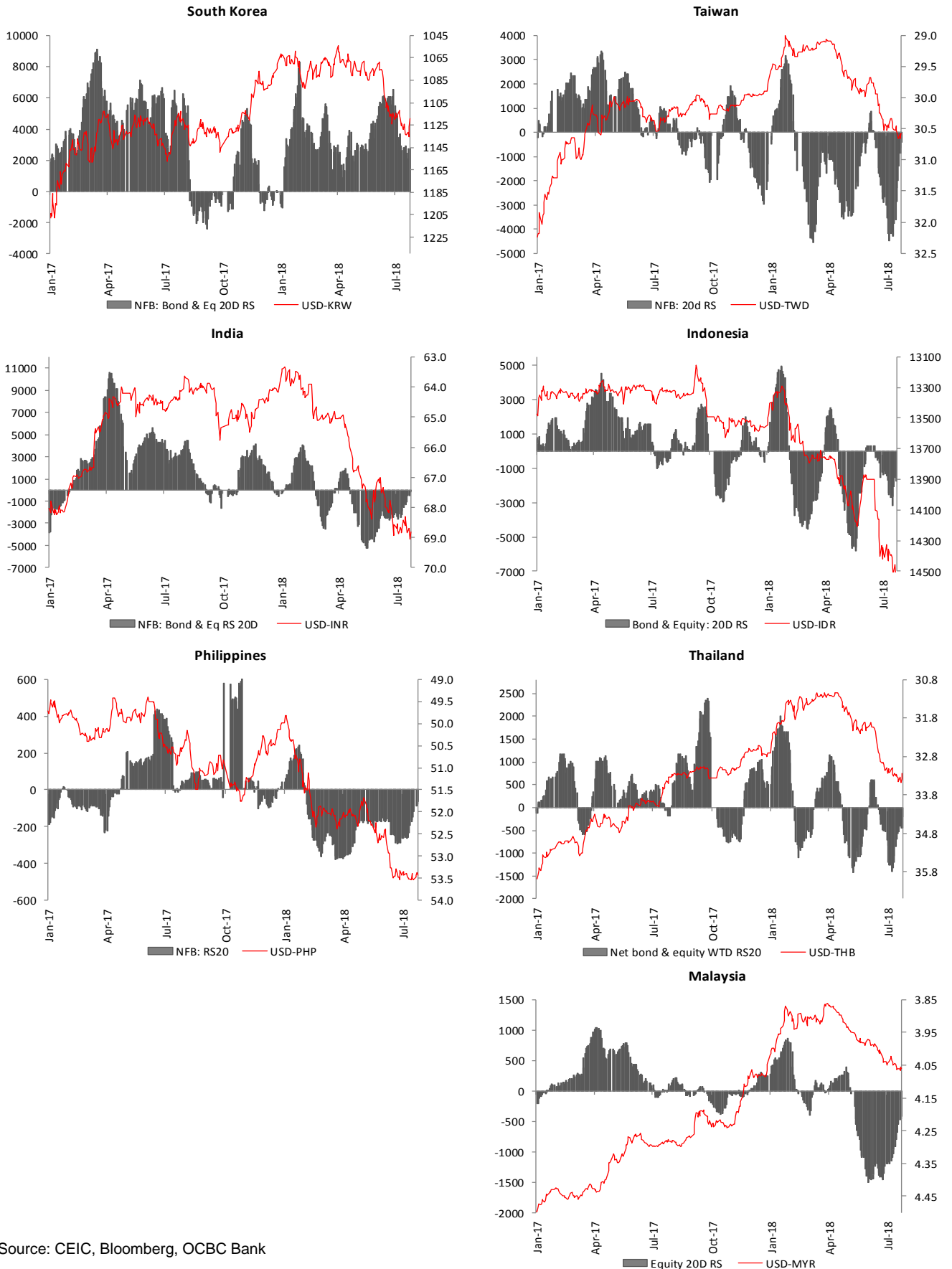
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Expansionary fiscal policy to complement monetary loosening to support the Chinese economy; potential for Sino-US trade situation to worsen; the USD-CNH back above 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

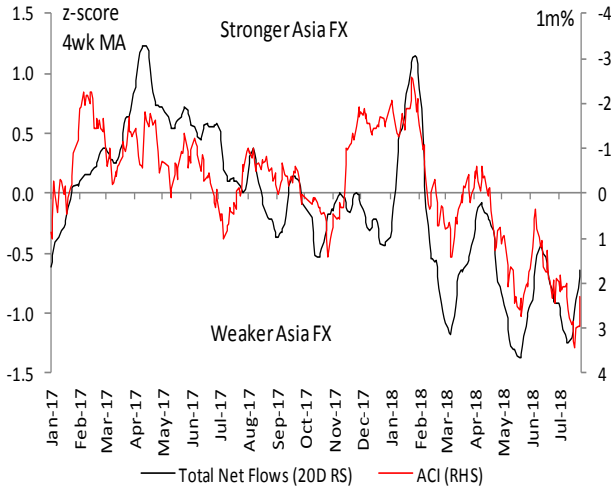
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



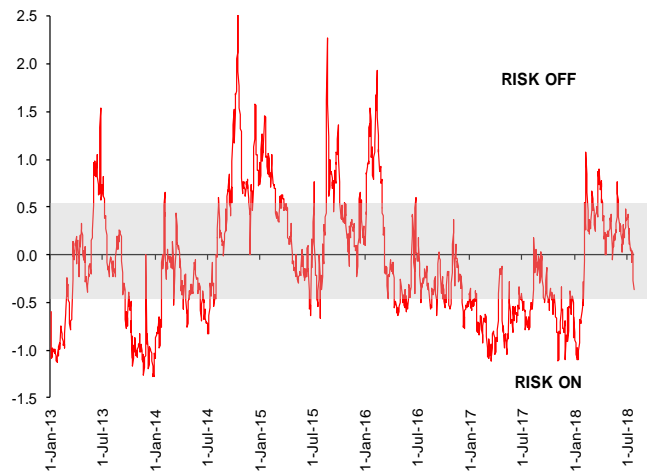
Source: CEIC, Bloomberg, OCBC Bank

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	-0.079	0.113	-0.184	-0.194	-0.227	0.321	-0.266	0.324	0.098	0.151	-0.912
SGD	0.847	-0.164	0.141	-0.295	-0.363	-0.233	0.195	-0.166	0.379	0.251	0.161	-0.792
CAD	0.761	-0.473	-0.151	-0.440	-0.452	-0.043	0.124	0.028	0.506	0.325	-0.225	-0.696
CHF	0.697	-0.268	0.077	0.169	-0.008	-0.488	0.735	-0.404	-0.152	-0.224	0.082	-0.474
PHP	0.459	-0.124	0.249	0.180	-0.010	-0.460	0.474	-0.351	-0.159	-0.268	0.281	-0.240
KRW	0.359	0.390	0.778	0.545	0.346	-0.790	0.569	-0.778	-0.432	-0.571	0.716	-0.058
JPY	0.321	-0.003	0.425	0.594	0.278	-0.835	1.000	-0.688	-0.647	-0.609	0.418	0.049
MYR	0.233	0.643	0.864	0.539	0.356	-0.644	0.283	-0.680	-0.410	-0.541	0.875	-0.107
IDR	0.229	0.713	0.919	0.557	0.453	-0.527	0.143	-0.626	-0.372	-0.573	0.901	-0.074
TWD	0.208	0.520	0.771	0.368	0.311	-0.541	0.206	-0.576	-0.222	-0.387	0.742	-0.053
CNH	0.151	0.784	0.988	0.765	0.589	-0.745	0.418	-0.791	-0.639	-0.782	1.000	0.049
CNY	0.113	0.786	1.000	0.776	0.621	-0.725	0.425	-0.804	-0.630	-0.787	0.988	0.128
THB	-0.078	0.583	0.862	0.753	0.498	-0.828	0.574	-0.779	-0.732	-0.742	0.874	0.351
USGG10	-0.079	1.000	0.786	0.634	0.764	-0.294	-0.003	-0.551	-0.438	-0.625	0.784	0.115
INR	-0.149	0.170	0.318	0.110	-0.143	-0.058	-0.275	0.003	-0.080	-0.049	0.298	0.159
NZD	-0.610	0.270	0.053	0.387	0.352	0.107	-0.177	-0.015	-0.386	-0.399	0.005	0.594
AUD	-0.792	0.118	0.030	0.484	0.500	0.005	0.050	0.015	-0.577	-0.413	-0.054	0.855
GBP	-0.813	-0.325	-0.526	-0.106	-0.054	0.376	-0.281	0.457	-0.078	0.178	-0.542	0.672
EUR	-0.912	0.115	0.128	0.443	0.352	-0.099	0.049	0.007	-0.597	-0.365	0.049	1.000

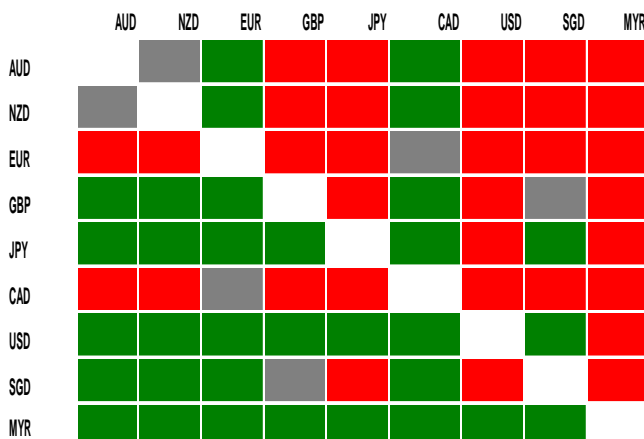
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1611	1.1653	1.1680	1.1700
GBP-USD	1.3031	1.3100	1.3109	1.3200	1.3249
AUD-USD	0.7311	0.7338	0.7390	0.7400	0.7450
NZD-USD	0.6700	0.6721	0.6779	0.6800	0.6850
USD-CAD	1.3025	1.3038	1.3060	1.3093	1.3100
USD-JPY	110.09	110.58	110.97	111.00	113.08
USD-SGD	1.3563	1.3600	1.3622	1.3700	1.3705
EUR-SGD	1.5800	1.5804	1.5874	1.5875	1.5900
JPY-SGD	1.2200	1.2238	1.2276	1.2300	1.2395
GBP-SGD	1.7800	1.7809	1.7857	1.7900	1.7927
AUD-SGD	1.0000	1.0042	1.0066	1.0100	1.0104
Gold	1210.70	1213.99	1223.20	1265.34	1267.75
Silver	15.24	15.40	15.44	15.50	16.20
Crude	69.15	69.50	69.58	69.60	75.27

Source: OCBC Bank

G10 FX Heat Map



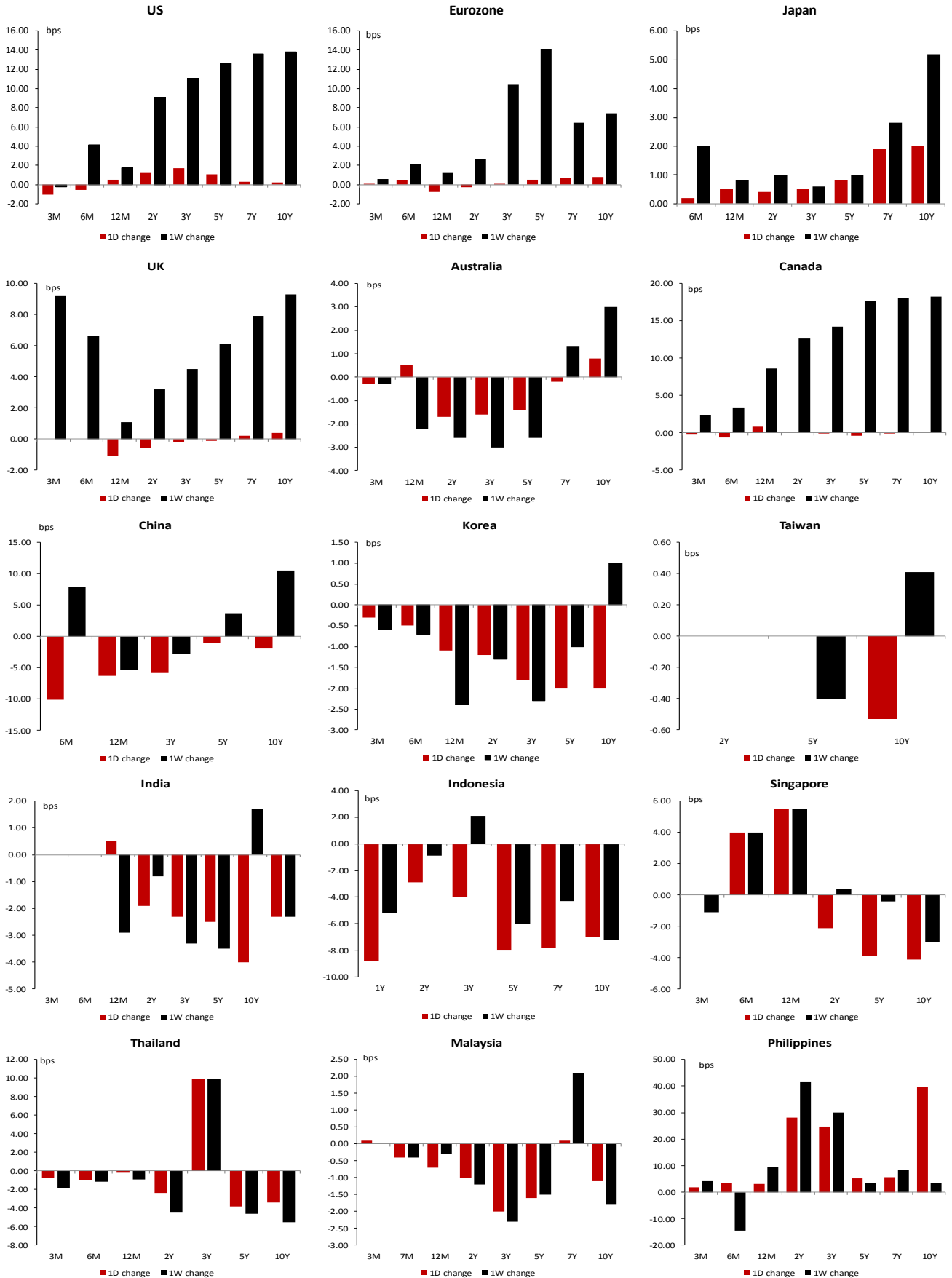
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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