

Wednesday, June 27, 2018

FX Themes/Strategy/Trading Ideas

- Despite mixed data prints and no significant lead from long-end UST yields, the broad USD managed to regain its footing against its G10 peers overnight. The EUR, GBP and NZD underperformed.
- Developments on the trade front were conflicting, with Trump sounding hostile over tariffs on cars on EU in a tweet, but appearing to side Mnuchin by taking a less confrontational approach regarding Chinese investment restrictions. Pending any serious escalation of trade tensions, we expect risk appetite to remain curtailed, but not tilt into an explicit panic mode. Our **FX Sentiment Index (FXSI)** nudged marginally higher towards the Risk-Off zone.
- Central bank rhetoric overnight weighed on the EUR and GBP. Rhetoric from Lane and De Guindos reflects greater caution over inflation, rather than optimism over growth. Meanwhile, new BOE member Haskel chose to highlight the risks of hiking too quickly in his first official comments. Note that he replaces McCafferty, one of the hawks within the BOE. It remains to be seen if this would upset the dynamics for the August meeting.
- Fed's Bostic highlighted that he may "take a fourth move off the table" in terms of rate hikes if trade issues take hold. This may be the most explicit link between trade tensions and monetary policy yet. If this reflects a broader view within the FOMC, the possibility for the Fed to revert to three hikes in 2018 as default may not be beyond the stretch of imagination. **In this context, it perhaps makes sense for the Fed to move another time in the September meeting, and thereby retain the optionality of having three or four rate hikes into December.**
- Overall, we think major pairs may continue to press against recent technical resistance/support levels. **Without a significant shift in the trade situation or other idiosyncratic drivers, expect recent ranges to hold, and a continuation of sideways movement into the end of the week.**
- One potential idiosyncratic driver for the NZD (and AUD to a lesser extent) is the upcoming **Reserve Bank of New Zealand (RBNZ)** policy decision (2100 GMT). Consensus favours a dovish hold. Together with a weak ANZ business confidence print early morning, this is weighing on the antipodeans.
- On the central bank front, watch for BOC's Poloz (1900 GMT). In particular, watch if trade issues with the US may hamper the BOC's rate hike prospects.

Treasury Research &
Strategy

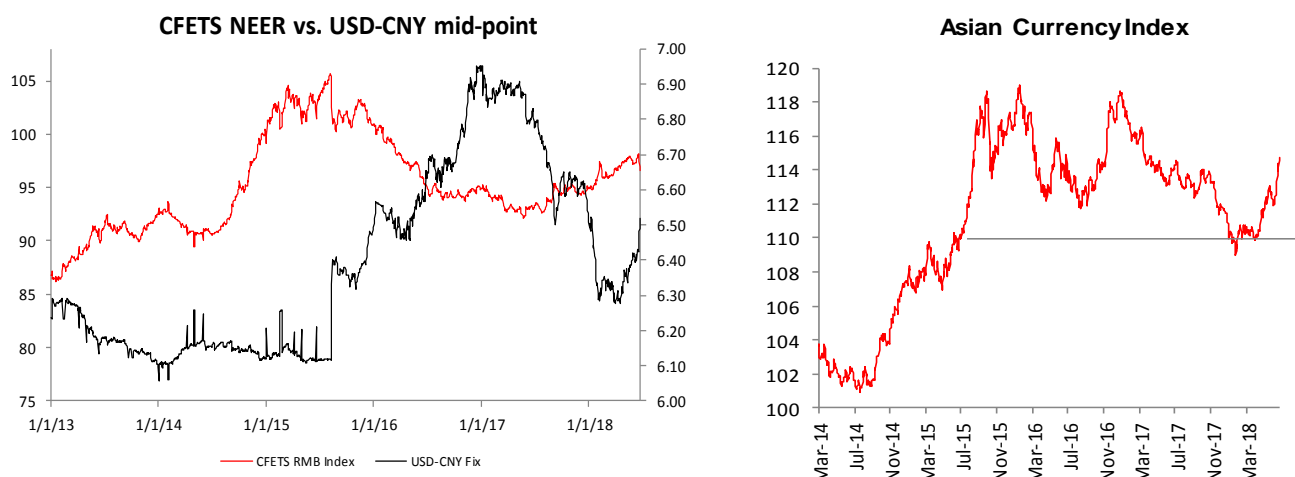
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Asian FX

- At this stage, we may be reduced to headline watching with regards to Asian currencies. Overnight, Trump appeared to be less confrontational regarding Chinese investment restrictions, and this may provide some temporary reprieve for Asian currencies. **Note increasing signs that the trade tensions are taking its toll on US equities and business sentiments. This might be the trigger for Trump to pull back on his most provocative stance.** Nevertheless, expect sentiments to remain jittery ahead of the report on Chinese investments due Friday, and the 6 July deadline for tariff imposition.
- **With Trump at least sounding more conciliatory in terms of Chinese investments, overall sentiments may improve slightly intra-day. Expect the Asian Currency Index (ACI) to trend higher still, but perhaps with a gentler pace**
- In terms of **Asian portfolio flows**, outflows remain unabated for Taiwan equities. Bond outflows also continue to be recorded in Indonesia. However, we note inflows for both bonds and equities in Thailand, but we will not count on this to continue into the coming sessions. In South Korea, equity outflows were offset by continued inflows in bonds.
- **SGD NEER:** The SGD NEER firmer again this morning, standing around +0.17% above its perceived parity level (1.3658). The NEER-implied USD-SGD thresholds were firmer on the back of a firmer USD. Expect the -0.10% (1.3672) and +0.30% (1.3517) thresholds to book-end intra-day. Note that industrial production data-prints were stronger than expected, perhaps underlying the fact that economic fundamentals remain sound, and unsupportive of the SGD NEER persisting below parity levels.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, as expected, at 6.5569 compared to 6.5180 on Tuesday. The CFETS RMB Index weakened marginally to 96.15, compared to 96.55 previously. Note that the midpoint is fixed lower than market consensus for the second consecutive session. This suggests a possibility that the PBoC may be seeking to curtail the pace of depreciation. Nevertheless, we note that today's move is at the top end of historical daily deviation thresholds.



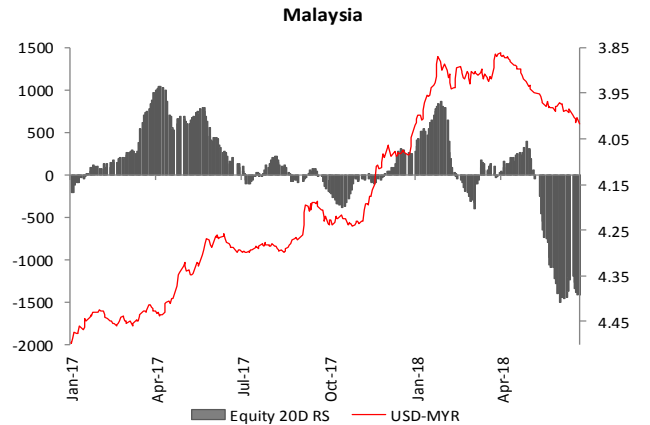
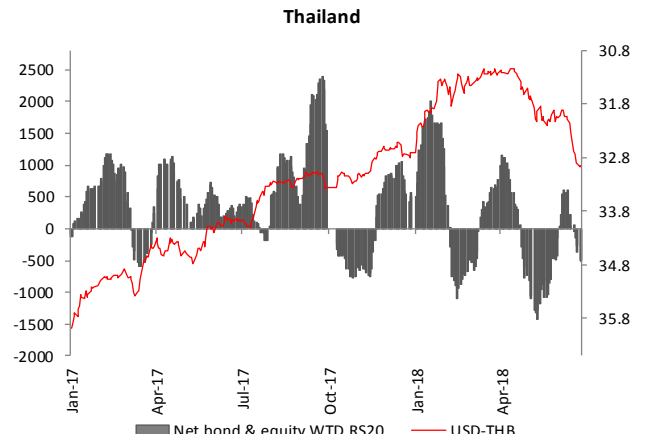
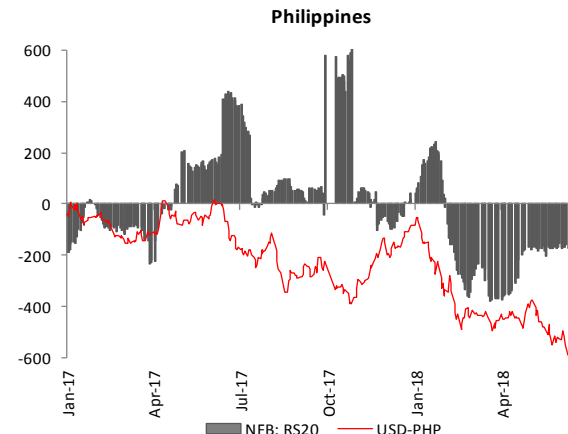
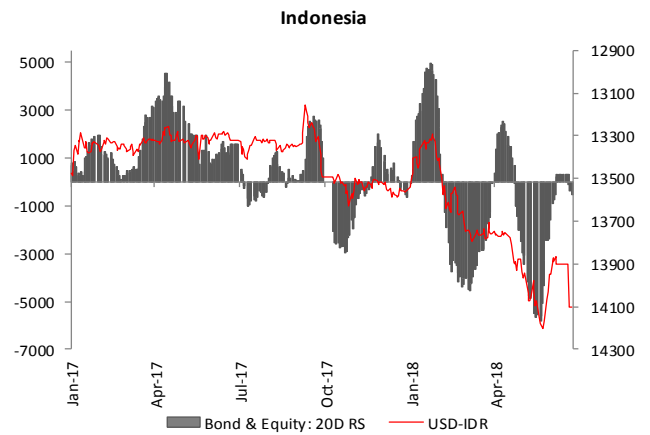
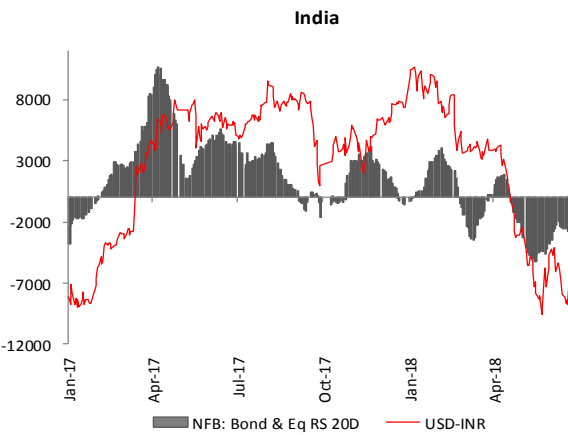
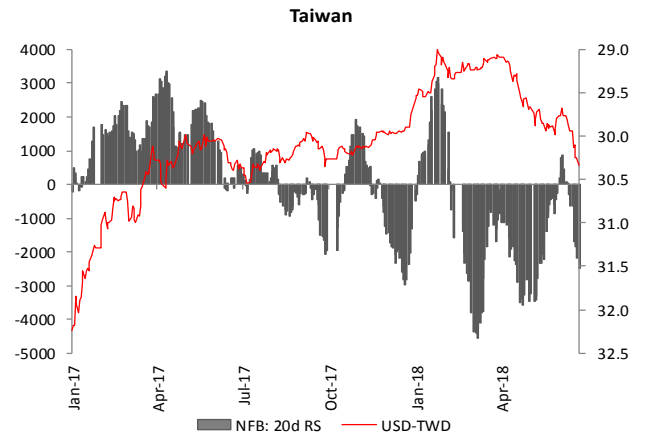
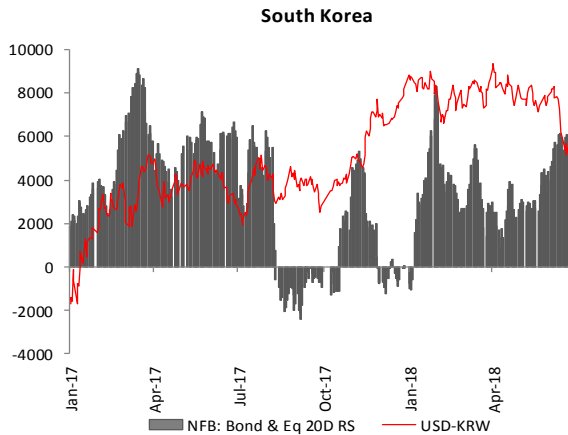
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	Sino-US trade tensions reigniting, 6 July is the key date; rapid depreciation of the RMB complex putting upward pressure on USD-Asia as a whole; RRR cut may herald further easing of monetary policy, putting negative pressure on the RMB
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

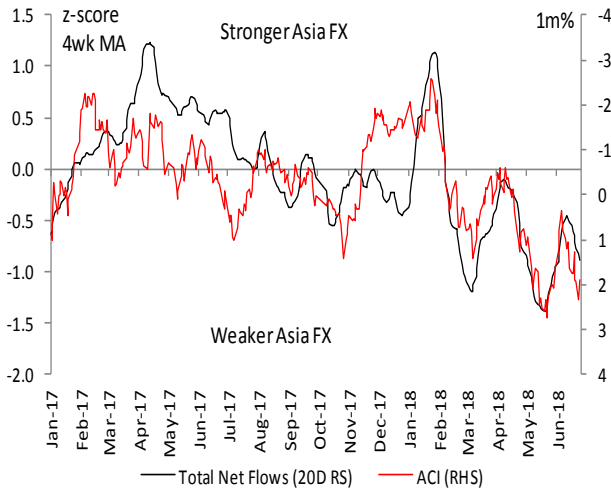
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



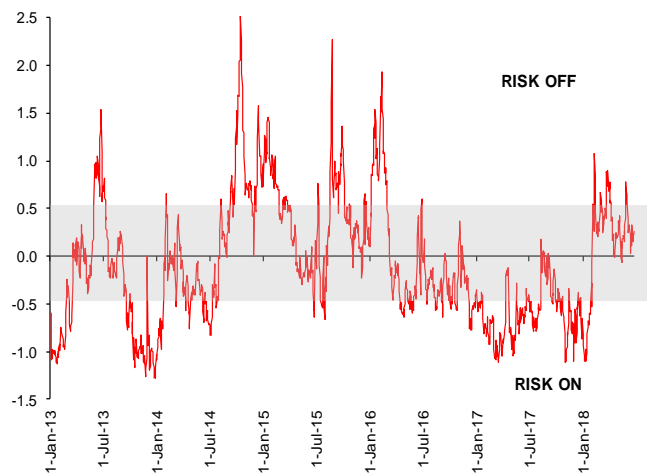
Source: CEIC, Bloomberg, OCBC Bank

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	-0.428	0.563	-0.191	-0.655	-0.581	0.222	0.211	0.295	0.052	0.605	-0.951
CHF	0.892	-0.147	0.312	0.091	-0.424	-0.523	0.382	0.021	0.014	-0.178	0.347	-0.863
IDR	0.820	-0.554	0.935	-0.428	-0.922	-0.616	0.241	0.758	0.777	0.718	0.930	-0.653
SGD	0.804	-0.398	0.919	-0.225	-0.879	-0.740	0.256	0.535	0.477	0.384	0.936	-0.628
CAD	0.756	-0.201	0.862	0.000	-0.747	-0.866	0.462	0.397	0.279	0.264	0.886	-0.532
INR	0.747	-0.349	0.774	-0.102	-0.744	-0.679	0.283	0.368	0.414	0.423	0.789	-0.587
THB	0.714	-0.426	0.937	-0.204	-0.847	-0.795	0.317	0.432	0.526	0.489	0.939	-0.541
KRW	0.679	-0.212	0.929	-0.056	-0.851	-0.800	0.425	0.485	0.357	0.352	0.925	-0.430
TWD	0.672	-0.467	0.944	-0.399	-0.959	-0.579	0.055	0.634	0.665	0.560	0.946	-0.523
PHP	0.638	-0.017	0.759	0.185	-0.680	-0.770	0.612	0.352	0.195	0.258	0.771	-0.411
CNH	0.605	-0.384	0.992	-0.305	-0.888	-0.654	0.203	0.705	0.556	0.506	1.000	-0.405
MYR	0.603	-0.452	0.898	-0.208	-0.825	-0.669	0.279	0.667	0.620	0.691	0.922	-0.411
CNY	0.563	-0.356	1.000	-0.339	-0.904	-0.640	0.148	0.611	0.582	0.537	0.992	-0.374
JPY	0.222	0.648	0.148	0.789	0.071	-0.632	1.000	-0.144	-0.601	-0.432	0.203	-0.009
USGG10	-0.428	1.000	-0.356	0.871	0.542	-0.193	0.648	-0.457	-0.835	-0.608	-0.384	0.531
NZD	-0.841	0.527	-0.825	0.360	0.838	0.623	-0.096	-0.545	-0.569	-0.451	-0.877	0.720
AUD	-0.870	0.365	-0.811	0.116	0.807	0.733	-0.324	-0.419	-0.375	-0.309	-0.835	0.709
GBP	-0.934	0.497	-0.662	0.301	0.787	0.539	-0.113	-0.365	-0.430	-0.204	-0.700	0.855
EUR	-0.951	0.531	-0.374	0.316	0.551	0.346	-0.009	-0.137	-0.335	-0.028	-0.405	1.000

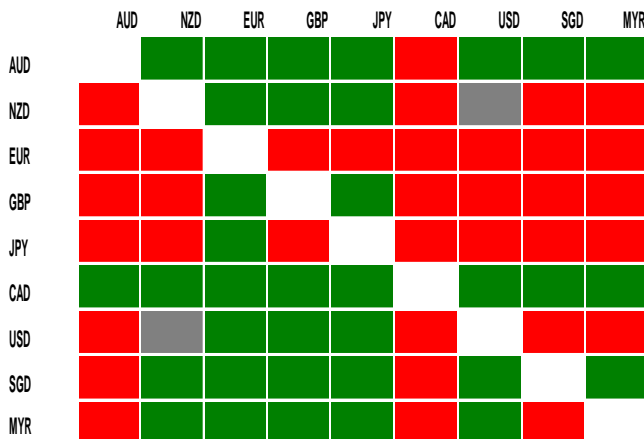
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1535	1.1600	1.1660	1.1700	1.1824
GBP-USD	1.3149	1.3200	1.3229	1.3300	1.3459
AUD-USD	0.7302	0.7346	0.7384	0.7400	0.7531
NZD-USD	0.6812	0.6826	0.6827	0.6900	0.6982
USD-CAD	1.2955	1.3300	1.3311	1.3382	1.3400
USD-JPY	109.16	109.69	109.90	110.00	110.21
USD-SGD	1.3395	1.3600	1.3622	1.3654	1.3688
EUR-SGD	1.5800	1.5837	1.5882	1.5900	1.5914
JPY-SGD	1.2212	1.2300	1.2394	1.2400	1.2445
GBP-SGD	1.7753	1.8000	1.8021	1.8047	1.8064
AUD-SGD	0.9981	1.0000	1.0059	1.0087	1.0100
Gold	1180.00	1200.00	1256.60	1257.01	1257.50
Silver	16.14	16.20	16.22	16.30	16.54
Crude	69.94	70.80	70.89	70.90	72.83

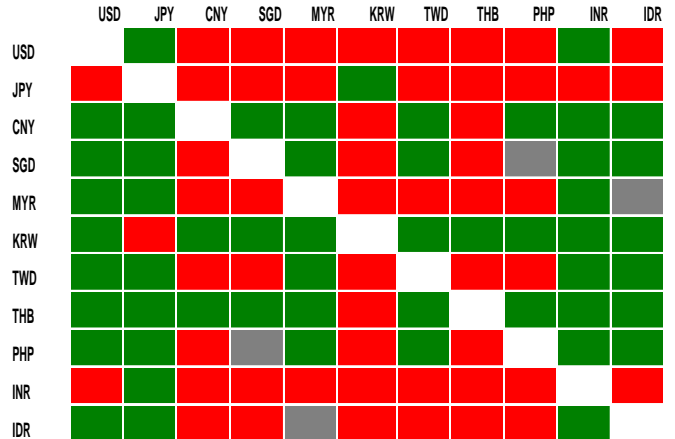
Source: OCBC Bank

G10 FX Heat Map



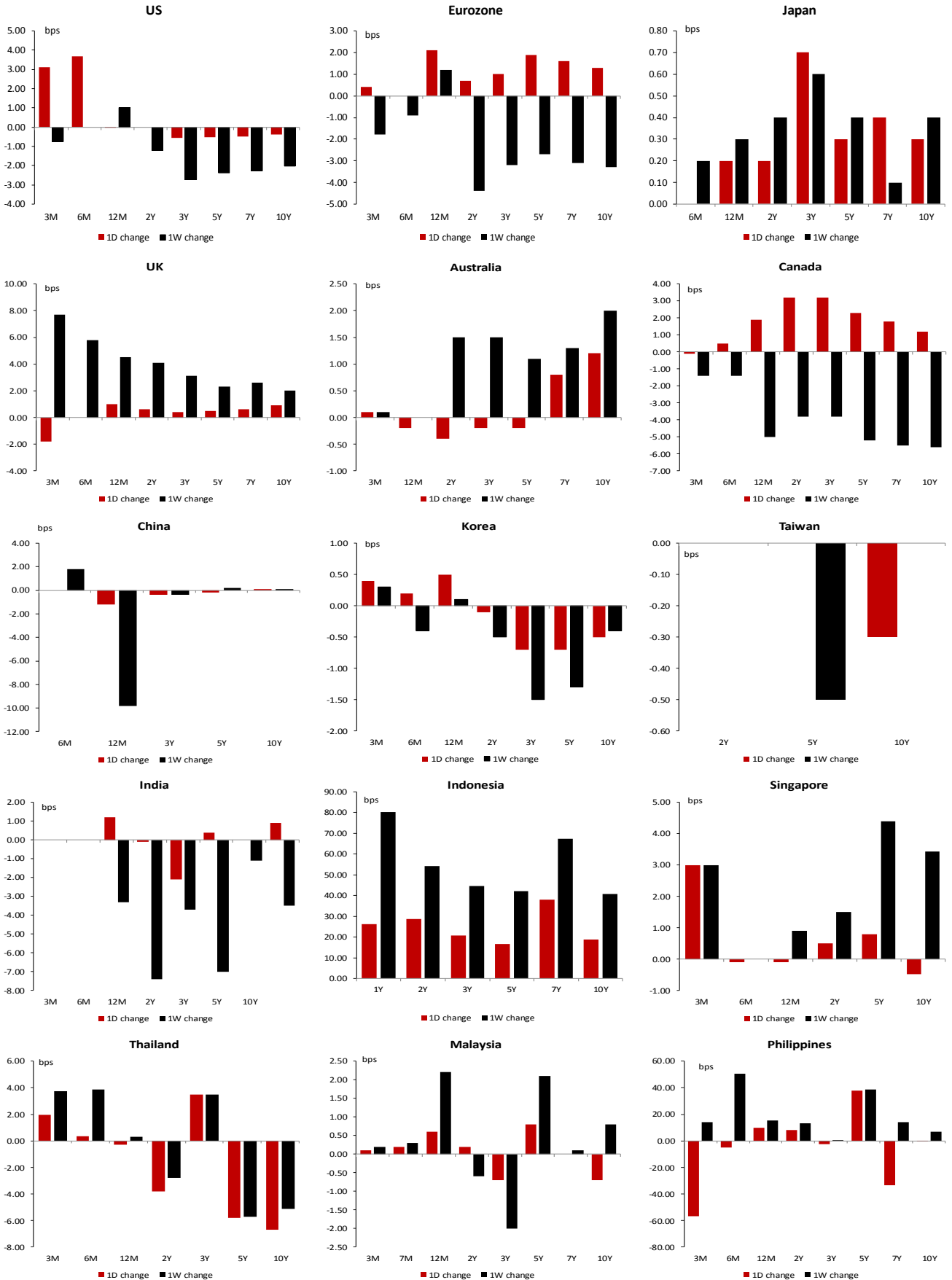
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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