

Friday, June 29, 2018

**FX Themes/Strategy/Trading Ideas**

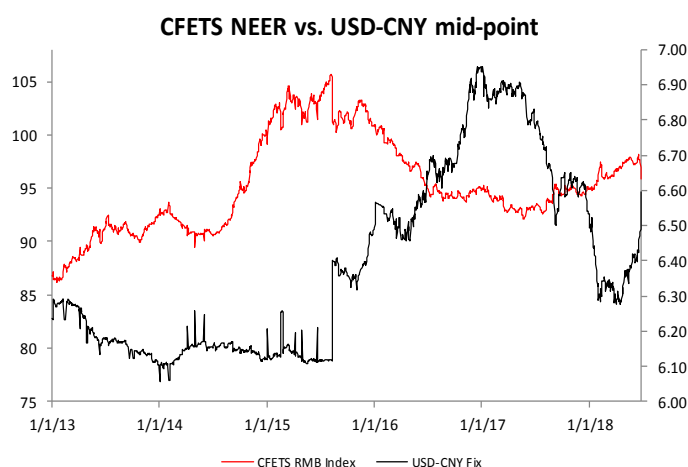
- The DXY index consolidated just below its year-to-date highs, before closing above the 95.30 level. The CAD outperformed on higher oil prices, and a turn in the rate hike expectations. The NZD continued to be pressured on a dovish RBNZ.
- Note that Fed's Bostic and Bullard are communicating that business leaders are feeling threatened by the trade developments. At this stage, we think that Trump will only ease off trade provocations if it imposes a material cost on the economy and/or electoral politics. That point may still some distance away.
- Overnight data, with German CPI in-line with expectations, was broadly supportive of the EUR overnight. The common currency also benefitted from haven flows after a weak-than-expected Italian bond auction. Note that front-end implied vols for the EUR is pushing higher. Potential risk events in the near term include the Eurozone CPI data, and the developments in the ongoing EU Summit and immigration talks within Merkel's coalition on Sunday.
- **Comparing across the implied valuation models, note that the broad USD is marginally over-valued at current levels. Going forward, this may suggest that any further gains in the broad USD, without significant new drivers, would be a slow grind.** At this juncture, the USD-CAD stands 2 s.d. higher than its implied valuation and may be a good short opportunity should the developments on the trade front turns.
- Elsewhere on the data front, watch for US personal income spending, PCE inflation (both 1230 GMT) and UMich sentiment index (1400 GMT), and UK final 1Q GDP print (0830 GMT).
- Note also that the **Bank of Japan** (BOJ) reduced bond purchases in the 5-10 year tenor by JPY20bn this morning. Reaction in the JPY was limited, as markets appeared to stop viewing these as signals towards underlying BOJ policy stance.

Treasury Research &  
Strategy

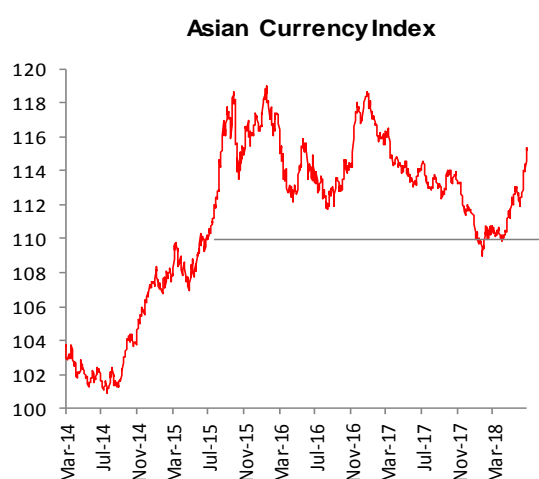
**Terence Wu**  
+65 6530 4367  
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## Asian FX

- Asian currencies continue to be pressured negatively alongside EM FX. IDR bore the brunt of declines in yesterday's session, as it surged past 14,400 at one stage.
- A mixed to firmer US/EM equities provided little support for overall risk sentiments overnight, as markets focused on the weakening EM FX and the global cues that are piling up against the EM world. Our **FX Sentiment Index (FXSI)** made another step towards the Risk-Off zone, now stands just marginally below outright Risk-off level.
- **With the broad USD in consolidative mode, the Asian Currency Index (ACI) may ease off slightly intraday. Nevertheless, with the spectre of trade war next week, any dips today should be shallow.**
- In terms of **Asian portfolio flows**, outflows continue to intensify for Taiwan equities. Note that all tracked Asian economies are experiencing equity outflows on a rolling 20D basis. Flows are more positive on the bond front, where we see inflows to South Korea, India and Indonesia in the latest reading.
- **SGD NEER:** The SGD NEER is firmer this morning, standing around +0.36% above its perceived parity level (1.3713). The NEER-implied USD-SGD thresholds were again firmer. Continue to expect the pair to fluctuate within the corridor set by the parity (1.3713) and +0.40% (1.3658) thresholds intra-day.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.6166 compared to 6.5960 on Thursday. The CFETS RMB Index weakened to 95.65, compared to 95.84 previously.



Source: OCBC Bank, Bloomberg

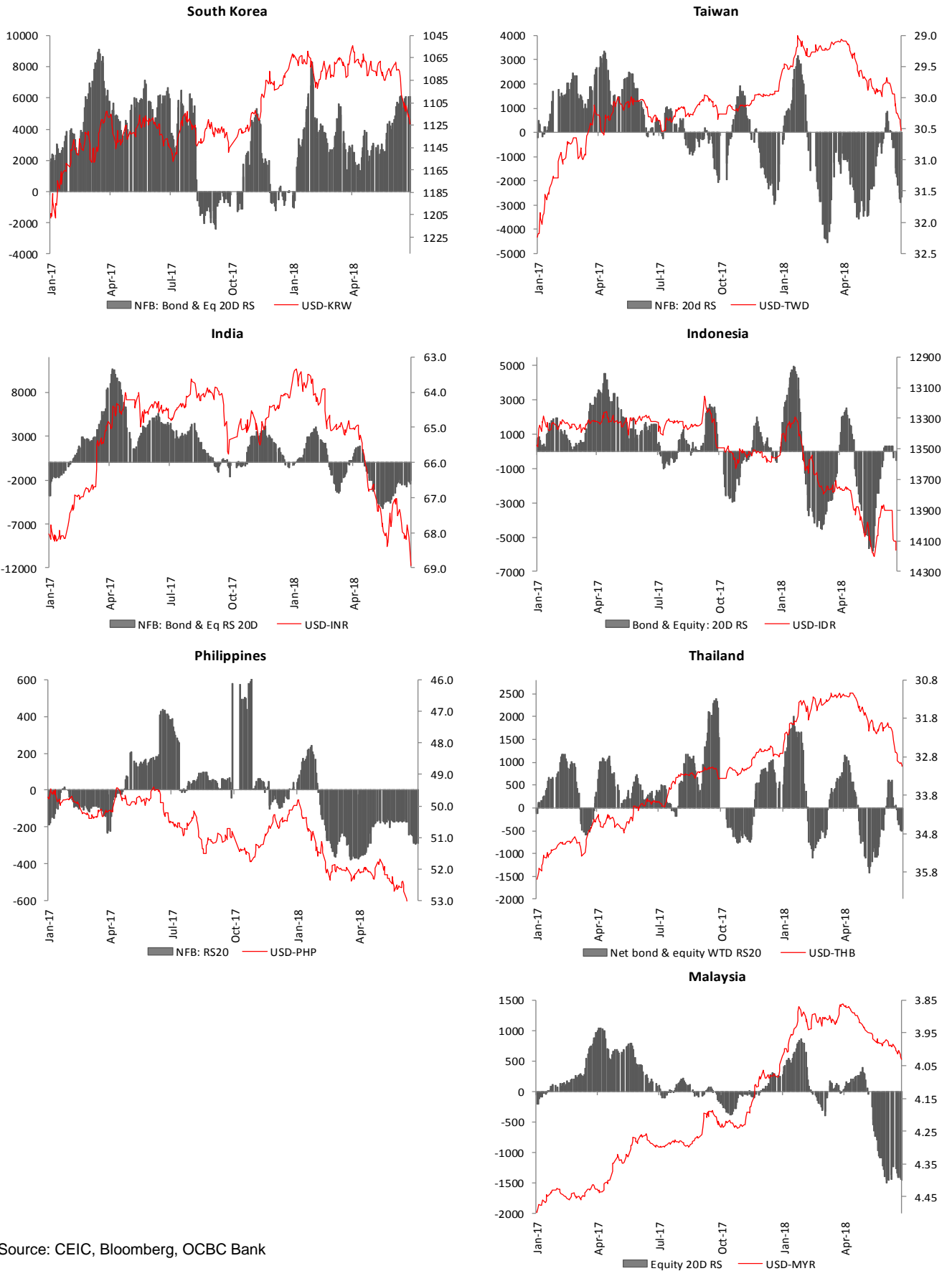


### Short term Asian FX views

Currency	Bias	Rationale
<b>USD-CNH</b>	↑	Sino-US trade tensions becoming base case, 6 July is the key date; rapid depreciation of the RMB complex putting upward pressure on USD-Asia as a whole; USD-CNY midpoint fix coming in lower than consensus, perhaps reflecting some (not too strong) intention to hold back the pace of RMB depreciation.
<b>USD-KRW</b>	↑	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
<b>USD-TWD</b>	↑	Equity outflows intensifying; pair led higher by the weakening RMB complex
<b>USD-INR</b>	↔/↑	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
<b>USD-SGD</b>	↑	Latest inflation prints in line with expectations, industrial production prints stronger than expected; SGD NEER supported near parity, unlikely to sustain under parity; pair responsive to broad USD movements
<b>USD-MYR</b>	↑	Shifts in policy direction under PH government may spur re-assessment of asset markets; sustained net equity outflows following election outcome
<b>USD-IDR</b>	↑	Coordinated effort by the government and BI may limit USD-IDR gains, but will not fundamentally reverse the trend; further rate hike expected this week; wider than expected trade balance negative for IDR
<b>USD-THB</b>	↑	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
<b>USD-PHP</b>	↑	BSP hiked rates in the latest meeting, signaling further rate hikes to come; PHP remains pressured due to intensifying outflows

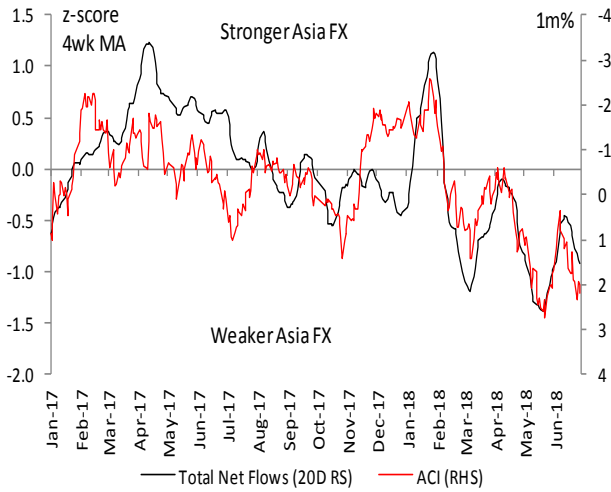
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



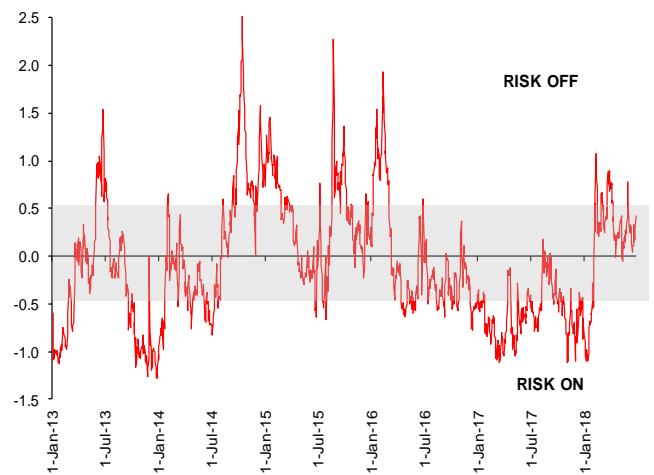
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.550	0.701	-0.364	-0.752	-0.488	0.307	0.477	0.488	0.352	0.724	-0.957
CHF	0.916	-0.321	0.528	-0.129	-0.577	-0.448	0.475	0.448	0.269	0.169	0.596	-0.891
IDR	0.890	-0.688	0.958	-0.520	-0.936	-0.433	0.492	0.883	0.801	0.846	0.955	-0.759
SGD	0.858	-0.530	0.929	-0.404	-0.913	-0.606	0.385	0.701	0.632	0.590	0.941	-0.731
INR	0.814	-0.531	0.868	-0.334	-0.843	-0.518	0.377	0.664	0.608	0.651	0.873	-0.663
CAD	0.788	-0.313	0.828	-0.170	-0.767	-0.787	0.525	0.484	0.428	0.413	0.825	-0.624
THB	0.782	-0.586	0.923	-0.394	-0.876	-0.673	0.395	0.606	0.651	0.638	0.919	-0.633
TWD	0.765	-0.609	0.956	-0.538	-0.971	-0.452	0.216	0.779	0.765	0.731	0.956	-0.618
KRW	0.757	-0.369	0.926	-0.251	-0.884	-0.670	0.495	0.592	0.528	0.556	0.914	-0.547
CNH	0.724	-0.557	0.996	-0.501	-0.936	-0.433	0.371	0.861	0.719	0.732	1.000	-0.588
MYR	0.722	-0.635	0.944	-0.467	-0.897	-0.466	0.397	0.791	0.764	0.837	0.946	-0.568
CNY	0.701	-0.557	1.000	-0.519	-0.944	-0.434	0.304	0.829	0.733	0.747	0.996	-0.522
PHP	0.698	-0.188	0.773	-0.002	-0.720	-0.706	0.655	0.486	0.352	0.421	0.766	-0.496
JPY	0.307	0.445	0.304	0.576	-0.116	-0.601	1.000	0.177	-0.340	-0.136	0.371	-0.148
USGG10	-0.550	1.000	-0.557	0.896	0.671	-0.187	0.445	-0.613	-0.874	-0.705	-0.557	0.614
NZD	-0.880	0.651	-0.909	0.529	0.907	0.429	-0.297	-0.796	-0.720	-0.695	-0.939	0.777
AUD	-0.899	0.484	-0.840	0.295	0.844	0.634	-0.426	-0.597	-0.534	-0.502	-0.856	0.784
GBP	-0.939	0.626	-0.815	0.481	0.874	0.394	-0.302	-0.720	-0.626	-0.536	-0.860	0.858
EUR	-0.957	0.614	-0.522	0.435	0.637	0.303	-0.148	-0.446	-0.479	-0.266	-0.588	1.000

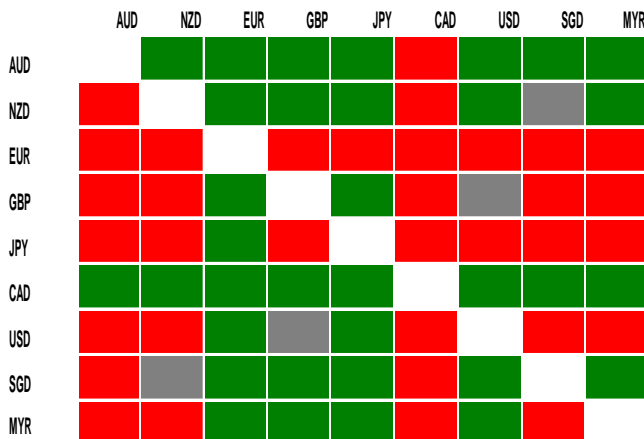
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1509	1.1600	1.1628	1.1700	1.1793
GBP-USD	1.3064	1.3100	1.3106	1.3200	1.3435
AUD-USD	0.7300	0.7324	0.7374	0.7400	0.7517
NZD-USD	0.6736	0.6755	0.6768	0.6800	0.6962
USD-CAD	1.2977	1.3200	1.3238	1.3300	1.3386
USD-JPY	110.00	110.20	110.71	110.84	111.00
USD-SGD	1.3417	1.3600	1.3659	1.3700	1.3705
EUR-SGD	1.5800	1.5822	1.5883	1.5900	1.5926
JPY-SGD	1.2218	1.2300	1.2339	1.2400	1.2467
GBP-SGD	1.7775	1.7900	1.7902	1.8000	1.8023
AUD-SGD	0.9981	1.0000	1.0073	1.0085	1.0100
Gold	1243.22	1246.90	1250.60	1296.78	1300.00
Silver	15.88	16.00	16.03	16.10	16.49
Crude	72.92	73.20	73.21	73.30	74.03

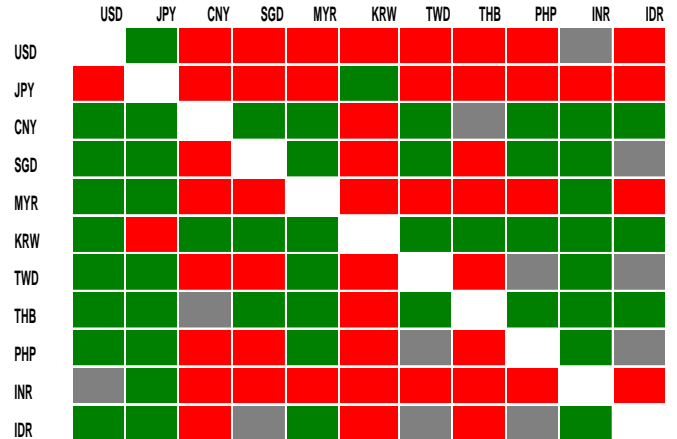
Source: OCBC Bank

**G10 FX Heat Map**



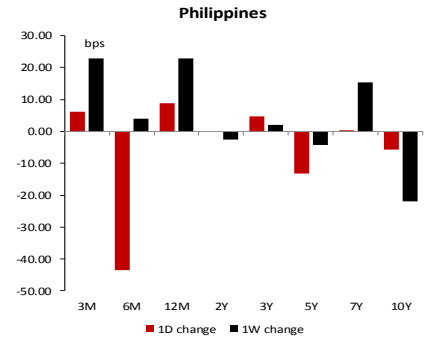
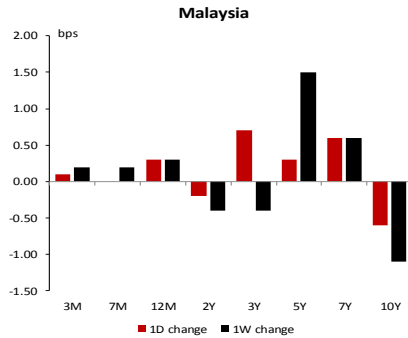
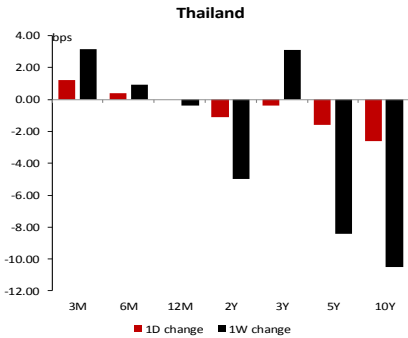
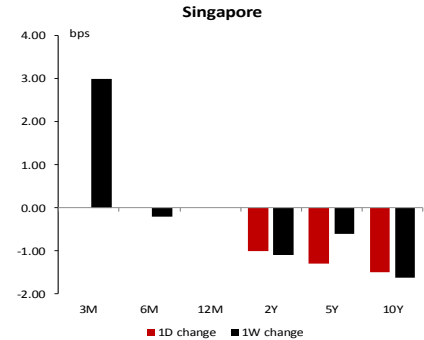
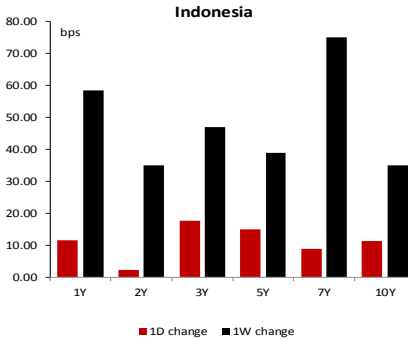
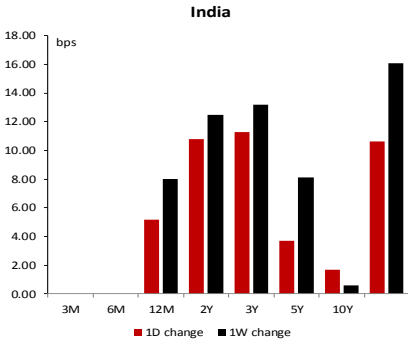
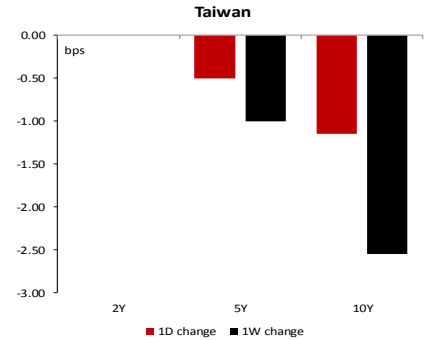
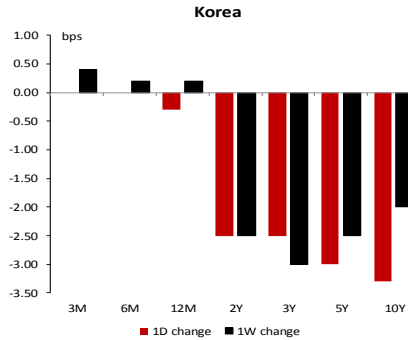
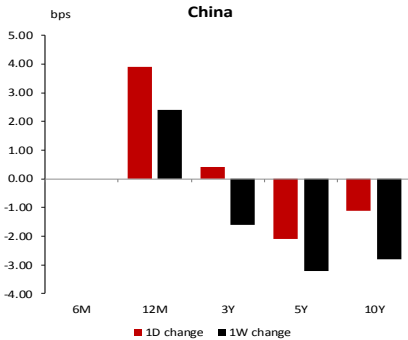
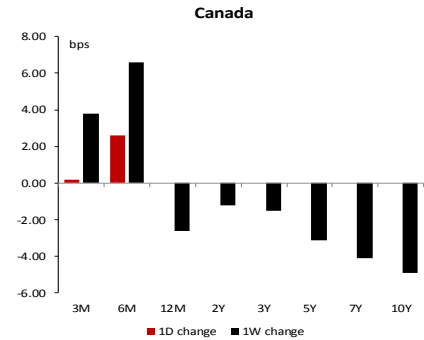
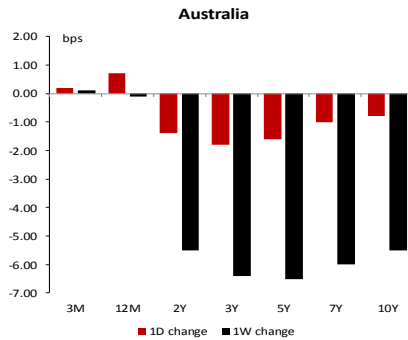
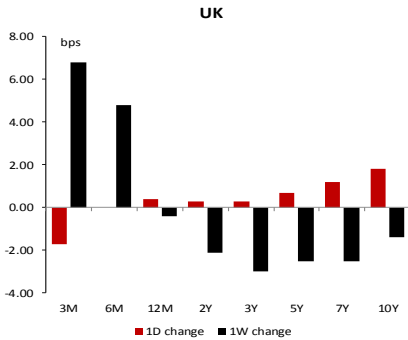
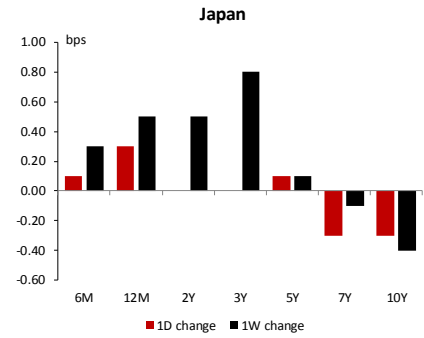
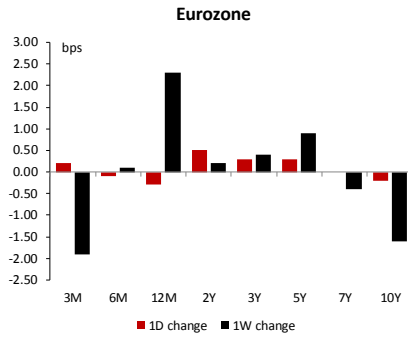
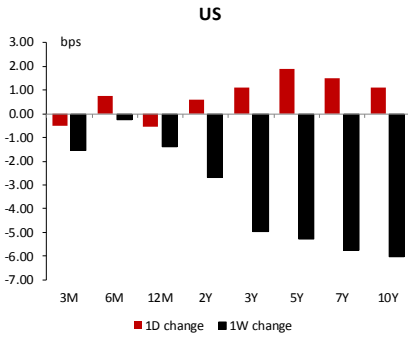
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



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