

Thursday, August 30, 2018

## FX Themes/Strategy/Trading Ideas

- The USD resumed its climb in the Asian and early London sessions, before a positive Brexit headline halted the recovery in its tracks. The GBP was the outperformer within the G7 space.
- We continue to be in a largely headline-driven mode, with the GBP benefiting (and the EUR to a smaller extent) from comments by the EU chief Brexit negotiator Barnier that the EU is willing to give the UK an “unprecedented partnership” and UK Brexit Secretary Raab being confident of a deal “within our sights”. However, we note that such statements are not unheard of before, and details are lacking. The usual red-lines and conflicts are still present.
- **We doubt that we are on the verge of a material shift in Brexit outlook that will snap the GBP out of its downtrend as yet.** Note that since April, the GBP long positions among leveraged accounts have been pared aggressively, and short positions are building quickly. **With the markets quite heavily positioned for a difficult Brexit, the news may bring about a near term relief rally as concerns ease somewhat.** In the near term, watch for the GBP-USD’s ability to break through the 50-day MA level at 1.3042, and then the previous peak near 1.3200.
- Elsewhere in the G7 space, expect trade-related headlines to drive the CAD, and mortgage rates issues to affect the AUD in the immediate horizon.
- **Under the headline-driven moves, we continue to sense a rehabilitation of the bruised USD sentiments. Fed rate hike expectations continues to be undergirded by strong economic prints,** with the latest US 2Q GDP revised higher to 4.2%, better than the expected 4.0%. Implied probabilities of the potential Dec rate hike moved higher in response. **Another stronger than expected print for the core PCE inflation later today (1230 GMT) would ease USD negativity further.**
- German consumer confidence and French 2Q GDP came in mixed yesterday, providing little fundamental support for the EUR. Today, watch for a series of Eurozone CPI prints headlined by German CPI (1200 GMT), US personal spending (1230 GMT) and jobless claims (1230 GMT), and Canada GDP (1230 GMT).

Treasury Research &  
Strategy

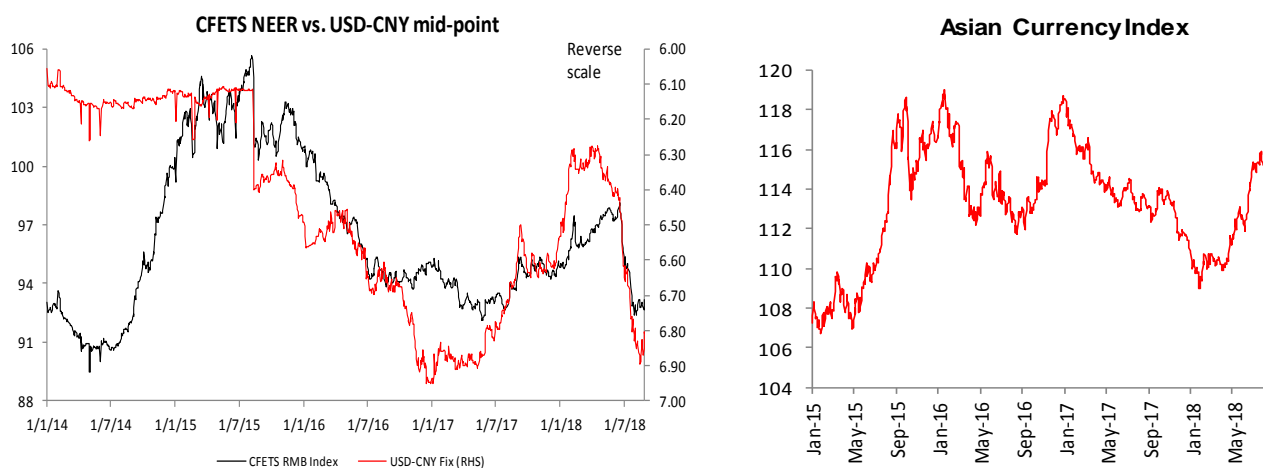
**Terence Wu**

+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## Asian FX

- Static to stronger US/EU equities provided some support to overall risk sentiments overnight, while a weaker set of EM FX against the USD may present a drag. Our **FX Sentiment Index (FXSI)** was essentially flat within the Risk-Neutral zone, while staying closer to the Risk-On zones.
- At this juncture, the USD-CNY continues to turn away from the 6.8000 handle, and the implementation of the counter-cyclical factor (CCF) has not yet resulted in the clear turn lower for the USD-CNY. At this juncture, corporate demand still appears strong near the 6.8000 level, and it may be worth contemplating what would PBoC's next step be, if the broad USD recovers and the USD-CNY retests the 6.9000 level.
- Note also, some renewed concerns over EM FX after what appears to be relatively short-lived rally amidst USD weakness. At this juncture, investors may shift attention back towards higher UST yields, thus putting pressure on EM assets.
- In terms of **Asian net portfolio flows**, North Asia enjoyed strong inflows into both the bond and equity fronts in the latest reading. In South Asia, the data is more mixed, with moderate outflows from India, and equities in Indonesia and Thailand. Inflows were seen in Thai and Indonesian bonds. Overall, on a country basis, we note that inflow momentum on a rolling 20-day basis is picking up again in Taiwan, Indonesia and Malaysia, apart from the strong inflows seen in Thailand.
- **With the USD sentiments improving and the USD-CNY inching higher, near-term storm clouds may be gathering again, after a short period of clear skies. Nevertheless, the portfolio flow environment and risk appetites still remain sanguine and supportive of the EM Asian complex. Overall, we expect our Asian Currency Index (ACI) to thread water as opposing factors cancel out each other.**
- **South Korea:** With a set of weaker than expected economic prints recently, we think the Bank of Korea (BOK) will choose to hold in their meeting tomorrow. Fiscal policy may have to do more of the heavy lifting in supporting the economy.
- **SGD NEER:** The SGD NEER continued ply a narrow range between +1.05% and +1.25% above parity, with the latest reading standing at +1.12% above its perceived parity level (1.3805). The NEER-implied USD-SGD thresholds inched higher. Expect the +1.00% (1.3669) and +1.30% (1.3629) thresholds to limit the intraday movements in the USD-SGD. At this juncture, note that the intraday range for the SGD NEER is slowly inching higher.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within of our expectations, at 6.8113 compared to 6.8072 on Wednesday. The CFETS RMB Index eased to 93.13, from 93.15 previously.



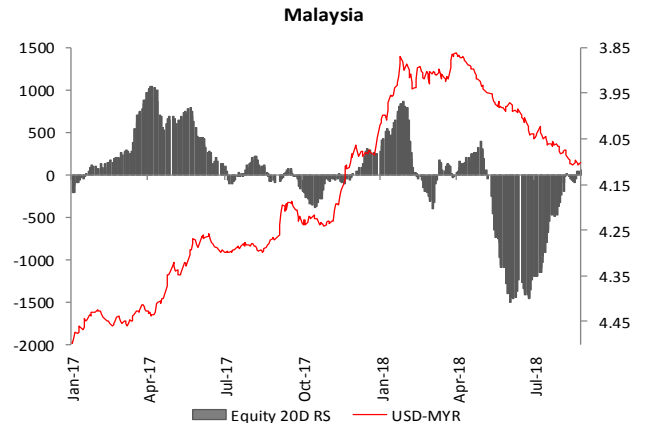
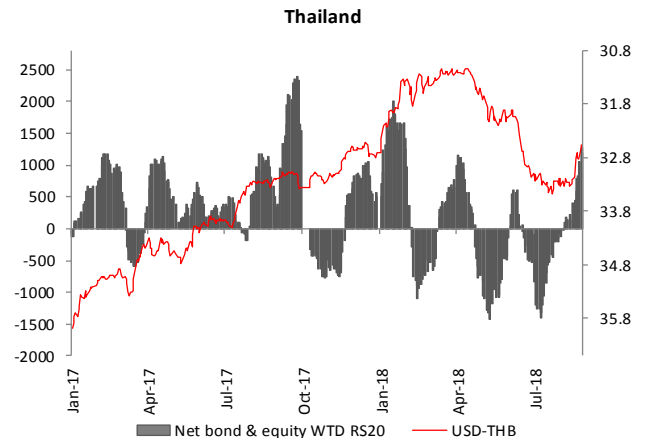
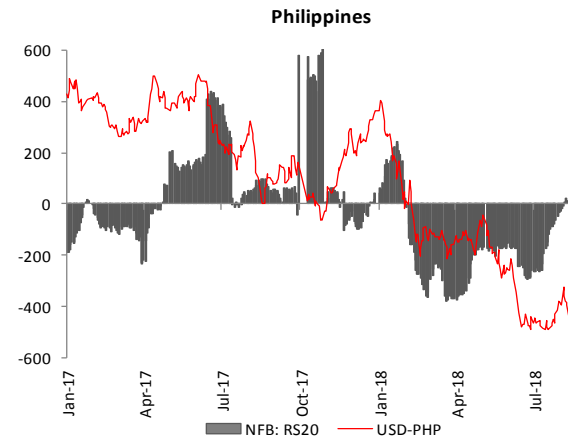
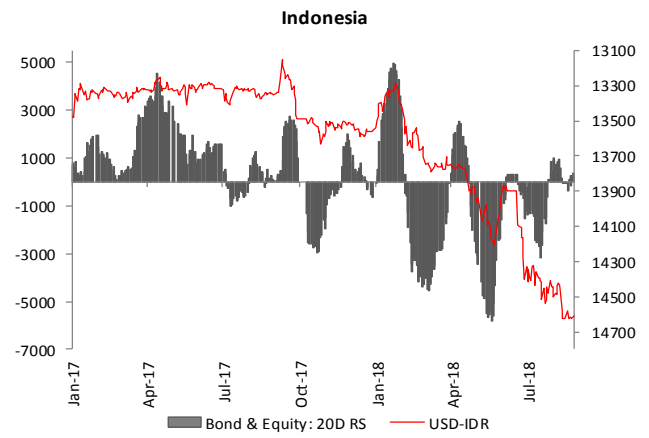
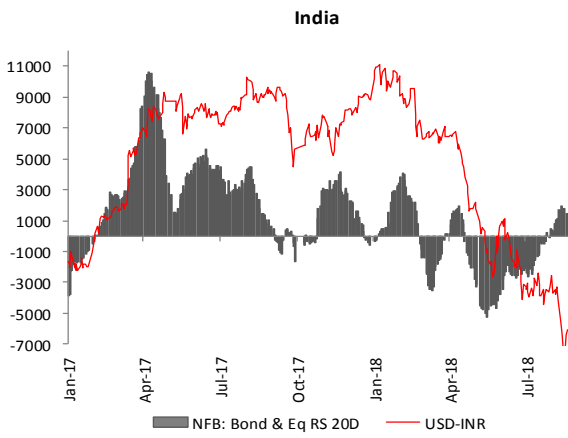
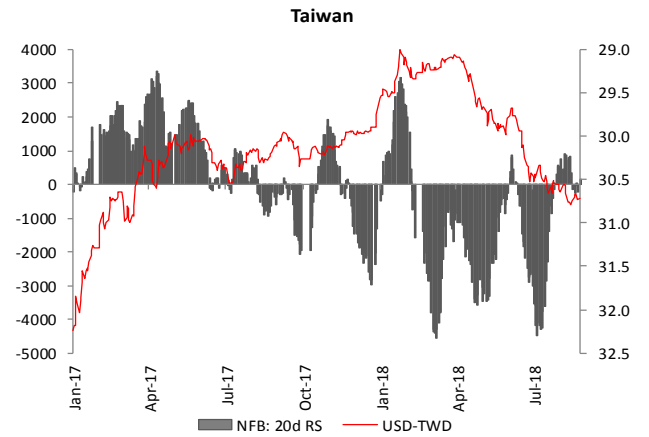
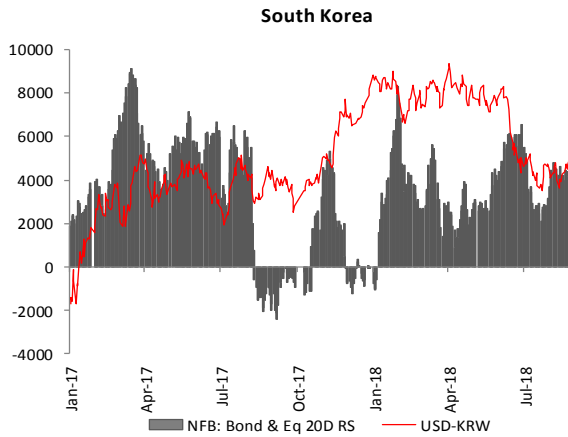
Source: OCBC Bank, Bloomberg

### 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; a break of the 6.8000 level may lead to further extension on the downside; no signs of immediate progress in Sino-US trade talks.
USD-KRW	↔/↓	Expect to track RMB movements; weaker than expected unemployment print may douse rate hike expectations; BOK meeting in focus, but also expect greater fiscal support for the economy next year
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; the air seems thin at altitudes higher than 70.00
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	↔	Economic indicators pointing south; BNM expected to be on hold until 2019; 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; govt looking to reduce foreign ownership of bonds to around 20% from almost 40% now; renewed efforts to contain trade and CA deficit
USD-THB	↔/↓	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support, top aide to Thai PM also signalled possible rate hike before year-end; 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

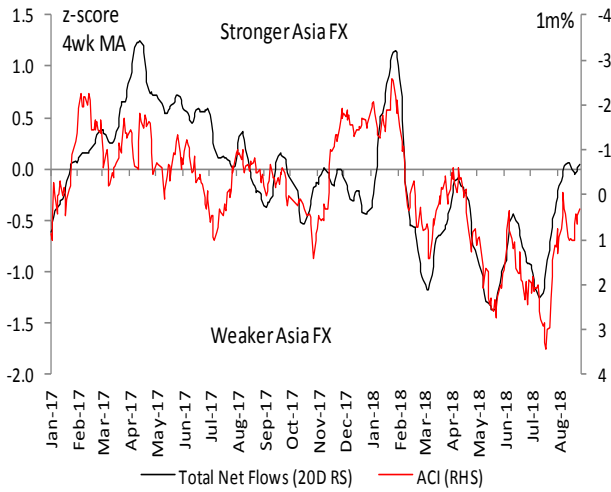
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



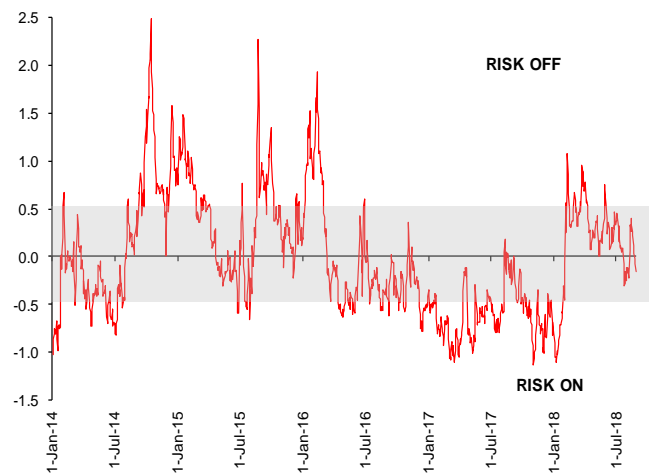
Source: CEIC, Bloomberg, OCBC Bank

**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	-0.300	0.861	-0.432	-0.741	-0.728	-0.568	-0.774	0.576	0.941	0.774	-0.992
SGD	0.940	-0.324	0.902	-0.394	-0.710	-0.722	-0.408	-0.654	0.644	0.857	0.894	-0.924
CAD	0.868	-0.148	0.755	-0.630	-0.612	-0.592	-0.479	-0.736	0.534	0.775	0.680	-0.866
CNY	0.861	-0.271	1.000	-0.478	-0.780	-0.771	-0.443	-0.728	0.646	0.865	0.867	-0.863
KRW	0.789	0.138	0.739	-0.743	-0.613	-0.330	-0.313	-0.508	0.410	0.758	0.732	-0.827
CNH	0.774	-0.060	0.867	-0.552	-0.555	-0.541	-0.225	-0.523	0.549	0.693	1.000	-0.790
TWD	0.682	-0.727	0.668	0.031	-0.776	-0.809	-0.517	-0.541	0.660	0.637	0.472	-0.625
CHF	0.602	0.385	0.466	-0.798	-0.409	-0.143	-0.239	-0.530	0.068	0.560	0.490	-0.664
THB	0.476	0.575	0.432	-0.797	-0.271	-0.028	0.115	-0.351	0.068	0.510	0.493	-0.553
PHP	0.397	-0.816	0.430	0.274	-0.531	-0.719	-0.442	-0.412	0.530	0.335	0.255	-0.328
MYR	0.348	-0.887	0.402	0.473	-0.573	-0.647	-0.437	-0.240	0.361	0.399	0.143	-0.268
IDR	0.239	-0.821	0.286	0.503	-0.457	-0.553	-0.340	-0.125	0.421	0.220	0.112	-0.147
INR	0.221	-0.806	0.270	0.623	-0.356	-0.561	-0.332	-0.106	0.397	0.200	0.025	-0.113
USGG10	-0.300	1.000	-0.271	-0.416	0.459	0.577	0.627	0.260	-0.302	-0.286	-0.060	0.231
JPY	-0.568	0.627	-0.443	-0.040	0.572	0.679	1.000	0.676	-0.267	-0.639	-0.225	0.566
AUD	-0.681	0.604	-0.713	0.027	0.590	0.738	0.274	0.422	-0.691	-0.611	-0.628	0.616
GBP	-0.872	0.570	-0.675	0.016	0.650	0.722	0.700	0.730	-0.390	-0.791	-0.542	0.828
NZD	-0.873	0.586	-0.697	0.085	0.592	0.738	0.602	0.665	-0.545	-0.795	-0.625	0.833
EUR	-0.992	0.231	-0.863	0.503	0.742	0.711	0.566	0.787	-0.555	-0.949	-0.790	1.000

Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1619	1.1699	1.1700	1.1750
GBP-USD	1.2662	1.3000	1.3033	1.3042	1.3055
AUD-USD	0.7203	0.7214	0.7286	0.7300	0.7371
NZD-USD	0.6545	0.6600	0.6655	0.6700	0.6742
USD-CAD	1.2895	1.2900	1.2923	1.3000	1.3105
USD-JPY	111.00	111.14	111.62	111.82	112.00
USD-SGD	1.3600	1.3656	1.3659	1.3700	1.3793
EUR-SGD	1.5867	1.5900	1.5980	1.5999	1.6000
JPY-SGD	1.2188	1.2200	1.2237	1.2288	1.2300
GBP-SGD	1.7786	1.7800	1.7801	1.7811	1.7900
AUD-SGD	0.9924	0.9936	0.9952	1.0000	1.0066
Gold	1173.78	1200.00	1204.80	1223.94	1224.09
Silver	14.32	14.60	14.63	14.70	15.44
Crude	69.31	69.60	69.66	69.70	70.28

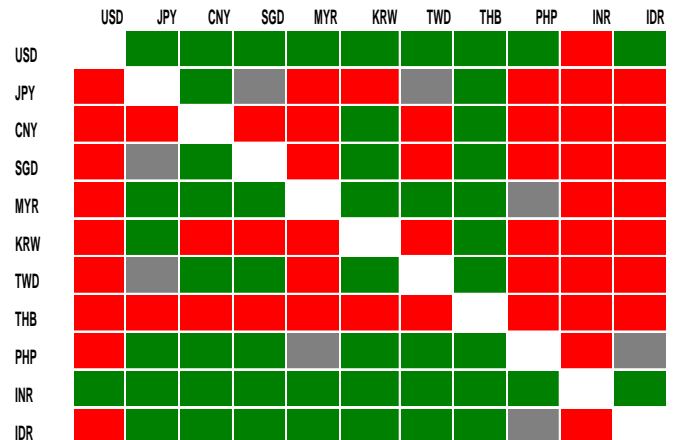
Source: OCBC Bank

**G10 FX Heat Map**



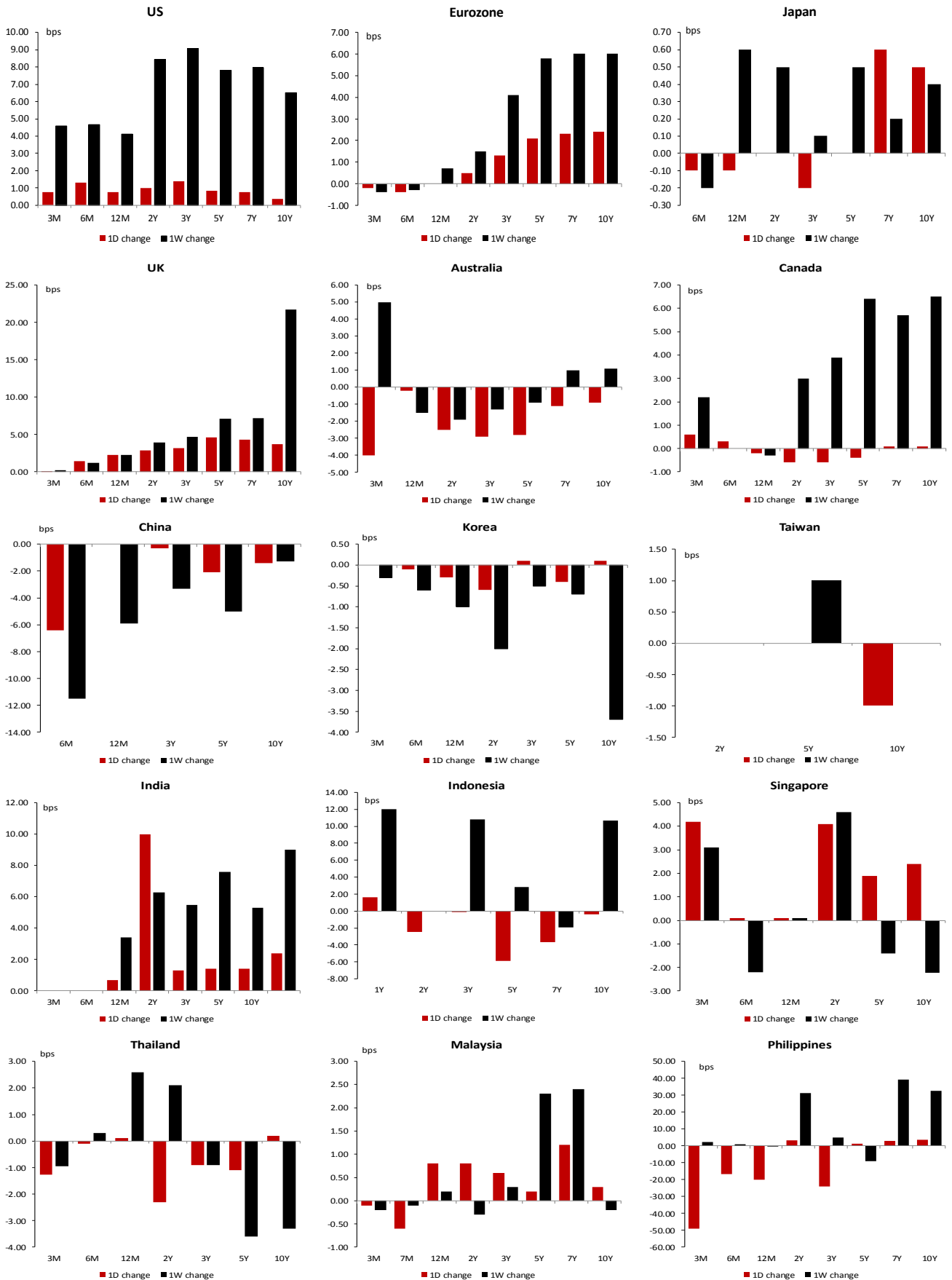
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

---