

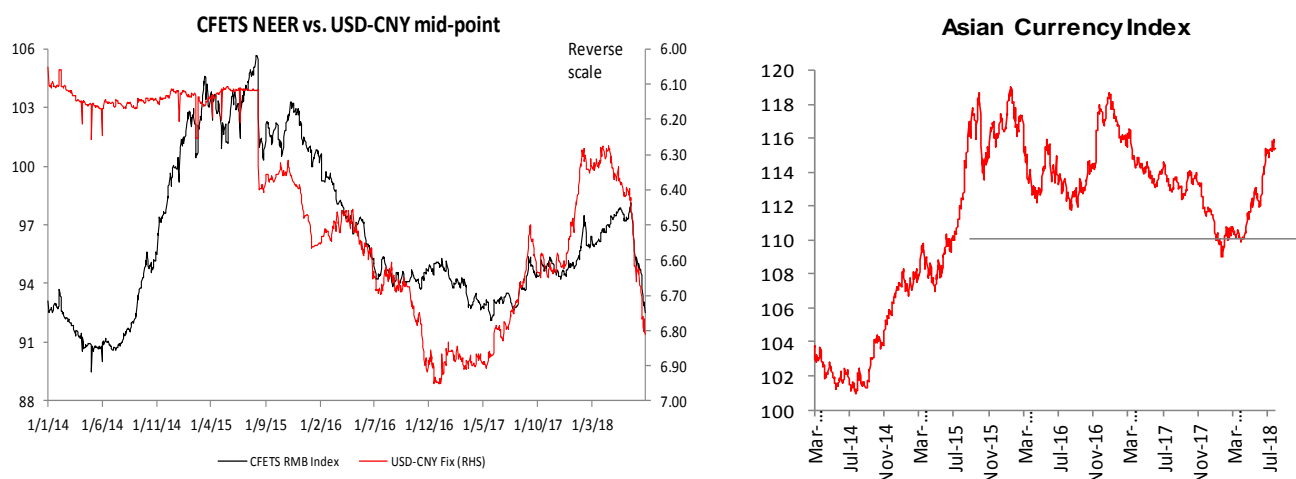
Monday, July 30, 2018

**FX Themes/Strategy/Trading Ideas**

- The broad dollar regained its footing as the European Central Bank (ECB) policy meeting failed to surprise the market last week. US' 2Q18 GDP growth printed at 4.1% qoq annualized, the fastest pace since 2014 but slightly below market expectations. However, the sustainability of recent strong growth remains uncertain. As such, the dollar index wiped out part of its gains.
- With the 10-year UST bond yield hovering above 2.95%, yield differential story may continue to allow the dollar index to oscillate in the range of 94-95. This week, the FOMC meeting is likely to be uneventful. Market may focus more on the meetings of Bank of England and Bank of Japan to see if any hawkish tones from these two central banks will shrug off some upside risks for the broad dollar.
- Euro has wiped out the recent gains as European Central Bank (ECB) was not in a rush to alter its easing bias. The ECB survey of professional forecasters tipped Eurozone inflation to accelerate faster to 1.7% this year and next year (previously seen at 1.5% and 1.6% respectively), albeit the growth forecast was shaved to 2.2% (previously 2.4%) for this year and to 1.9% (previously 2%) for next year. Unless any positive data prints out of the Eurozone propel the market to change the expectations of the ECB's rate hike trajectory, we expect the EUR to keep trading in a tight range and show limited upside.
- This week, all eyes will be on the meeting of the Bank of England (BOE) as market has priced in more than 90% of probability of a 25bps rate hike. Nevertheless, given the slowing inflation and the weak performance of some major economic indicators, the BOE may not be too hawkish in terms of its future rate hike plans. If this is the case, the GBP will likely remain range bound pending for any positive news related to the Brexit.
- USDJPY continued to hover around the level of 111. The JPY remains supported as market speculates that the Bank of Japan (BOJ) will adjust the yield curve control target in this week's meeting. However, last week, the BOJ intervened in the bond market twice, in an effort to keep the 10y JGB yield around 0.1%. More notably, Japan's inflation has remained well below the central bank's target. Therefore, at this juncture, we think it is premature to expect an official change in the yield curve control target, though some flexibility may have in the form of a wider tolerance range to the topside of the "around 0%" target for the 10y JGB yield. Should the BOJ reiterate its easing bias, we are wary that the JPY would erase some of its recent gains.
- The rally momentums in the commodity market proved to be short-lived. With 10y UST yield hovering above 2.95%, US-Australia yield differential continued to weigh down the prospects for the AUD. Moving forward, the weaker-than-expected inflation for 2Q indicates that the RBA will highly likely to hold neutral stance in the medium term. Elsewhere, should US-China trade tensions

escalate, the AUD could see more downside risks.

- The CAD has remained relatively strong compared to other G10 currencies, mainly supported by three factors including 1) a more than 60% chance of one more rate hike by the Bank of Canada this year, 2) positive NAFTA headlines as well as 3) resilient oil prices. We expect the risks for the CAD tilt more to the upside in the near term.
- The latest round of RMB depreciation since mid-June was mainly driven by two factors including trade war and China's easing expectation. We will closely monitor the progress of US-China trade war, which if escalating may further weigh down on RMB prospect. However, we think the risk of chasing the USDCNY higher is rising as RMB index (currently 92.5) is approaching the level (around 92) which prompted China to launch the counter cyclical factor last year.



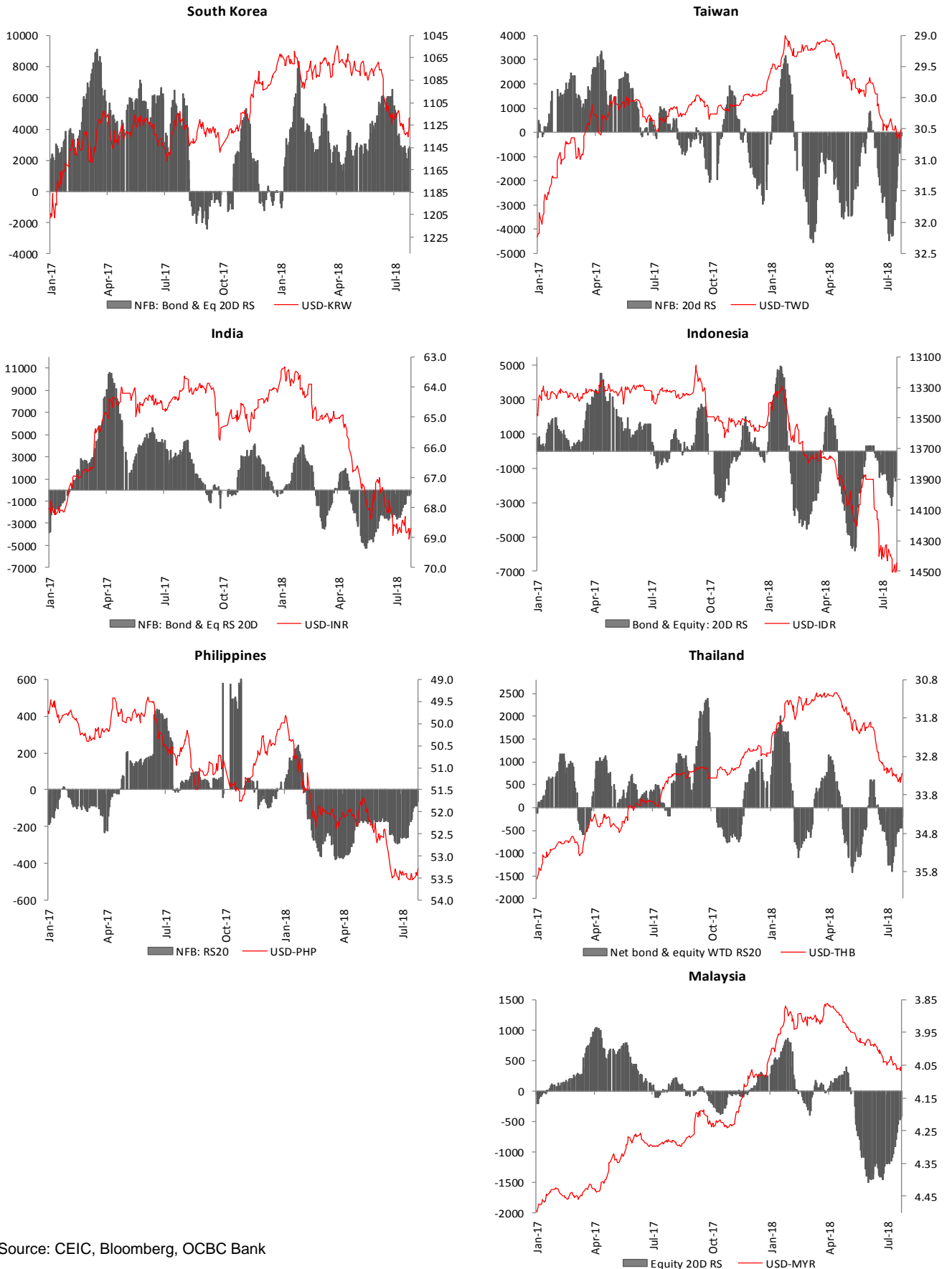
Source: OCBC Bank, Bloomberg

### 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

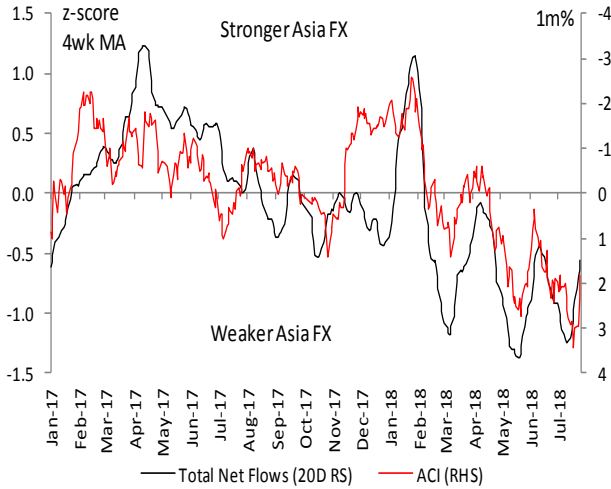
Source: OCBC Bank

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



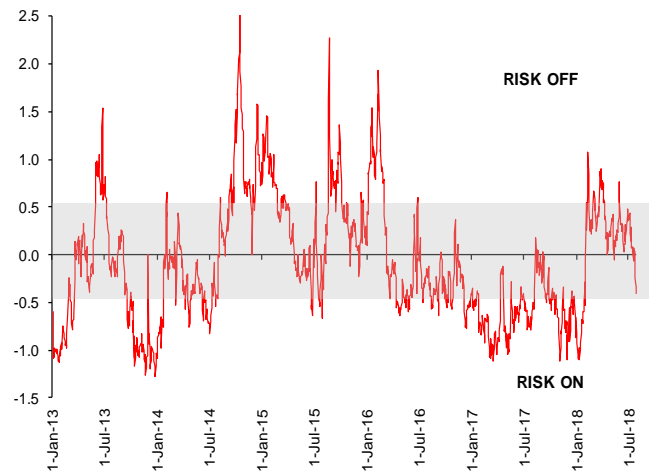
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.053	0.393	0.155	0.020	-0.655	0.676	-0.515	-0.069	-0.185	0.450	-0.884
SGD	0.822	-0.177	0.226	-0.199	-0.300	-0.464	0.384	-0.225	0.282	0.190	0.227	-0.787
CHF	0.723	-0.241	0.087	0.252	0.072	-0.614	0.889	-0.429	-0.340	-0.270	0.117	-0.493
JPY	0.676	-0.169	0.225	0.406	0.126	-0.800	1.000	-0.564	-0.519	-0.438	0.209	-0.315
CAD	0.617	-0.492	-0.029	-0.213	-0.461	-0.477	0.572	-0.089	0.105	0.235	-0.072	-0.380
MYR	0.478	0.608	0.862	0.474	0.394	-0.595	0.147	-0.690	-0.243	-0.530	0.861	-0.459
KRW	0.462	0.195	0.648	0.452	0.266	-0.790	0.577	-0.610	-0.371	-0.465	0.501	-0.129
CNH	0.450	0.801	0.987	0.673	0.643	-0.616	0.209	-0.778	-0.429	-0.751	1.000	-0.367
CNY	0.393	0.815	1.000	0.705	0.683	-0.594	0.225	-0.777	-0.449	-0.768	0.987	-0.268
THB	0.355	0.557	0.839	0.590	0.473	-0.769	0.450	-0.786	-0.496	-0.668	0.845	-0.081
TWD	0.333	0.512	0.769	0.329	0.333	-0.554	0.134	-0.585	-0.103	-0.394	0.754	-0.234
PHP	0.297	-0.259	0.042	0.093	-0.109	-0.447	0.606	-0.184	-0.258	-0.111	0.111	0.028
IDR	0.275	0.701	0.873	0.506	0.473	-0.455	0.072	-0.577	-0.280	-0.527	0.870	-0.148
USGG10	0.053	1.000	0.815	0.653	0.789	-0.199	-0.169	-0.566	-0.368	-0.668	0.801	-0.092
INR	-0.212	0.103	0.184	-0.085	-0.175	0.153	-0.412	0.159	-0.151	0.128	0.169	0.211
NZD	-0.698	0.285	0.007	0.395	0.332	0.262	-0.265	0.047	-0.465	-0.363	-0.028	0.764
AUD	-0.726	0.056	-0.174	0.323	0.368	0.293	-0.161	0.157	-0.444	-0.269	-0.242	0.824
GBP	-0.792	-0.464	-0.752	-0.368	-0.268	0.619	-0.393	0.621	0.177	0.426	-0.779	0.683
EUR	-0.884	-0.092	-0.268	0.038	0.086	0.391	-0.315	0.345	-0.193	-0.028	-0.367	1.000

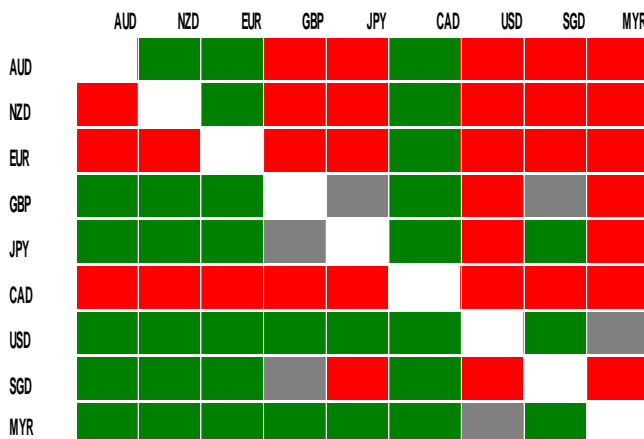
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1614	1.1654	1.1677	1.1700
GBP-USD	1.3026	1.3100	1.3104	1.3200	1.3243
AUD-USD	0.7311	0.7347	0.7391	0.7400	0.7464
NZD-USD	0.6700	0.6734	0.6795	0.6800	0.6846
USD-CAD	1.3025	1.3030	1.3075	1.3099	1.3100
USD-JPY	110.58	111.00	111.14	112.00	113.08
USD-SGD	1.3564	1.3600	1.3628	1.3697	1.3700
EUR-SGD	1.5806	1.5868	1.5882	1.5900	1.5987
JPY-SGD	1.2200	1.2241	1.2261	1.2300	1.2381
GBP-SGD	1.7793	1.7800	1.7857	1.7900	1.7924
AUD-SGD	1.0000	1.0048	1.0072	1.0100	1.0102
Gold	1210.70	1211.59	1218.80	1264.15	1266.34
Silver	15.20	15.40	15.44	15.50	16.14
Crude	66.12	68.80	68.89	68.90	69.08

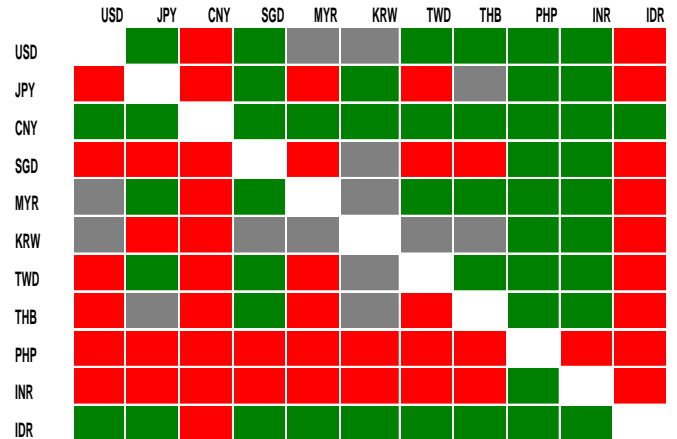
Source: OCBC Bank

### G10 FX Heat Map



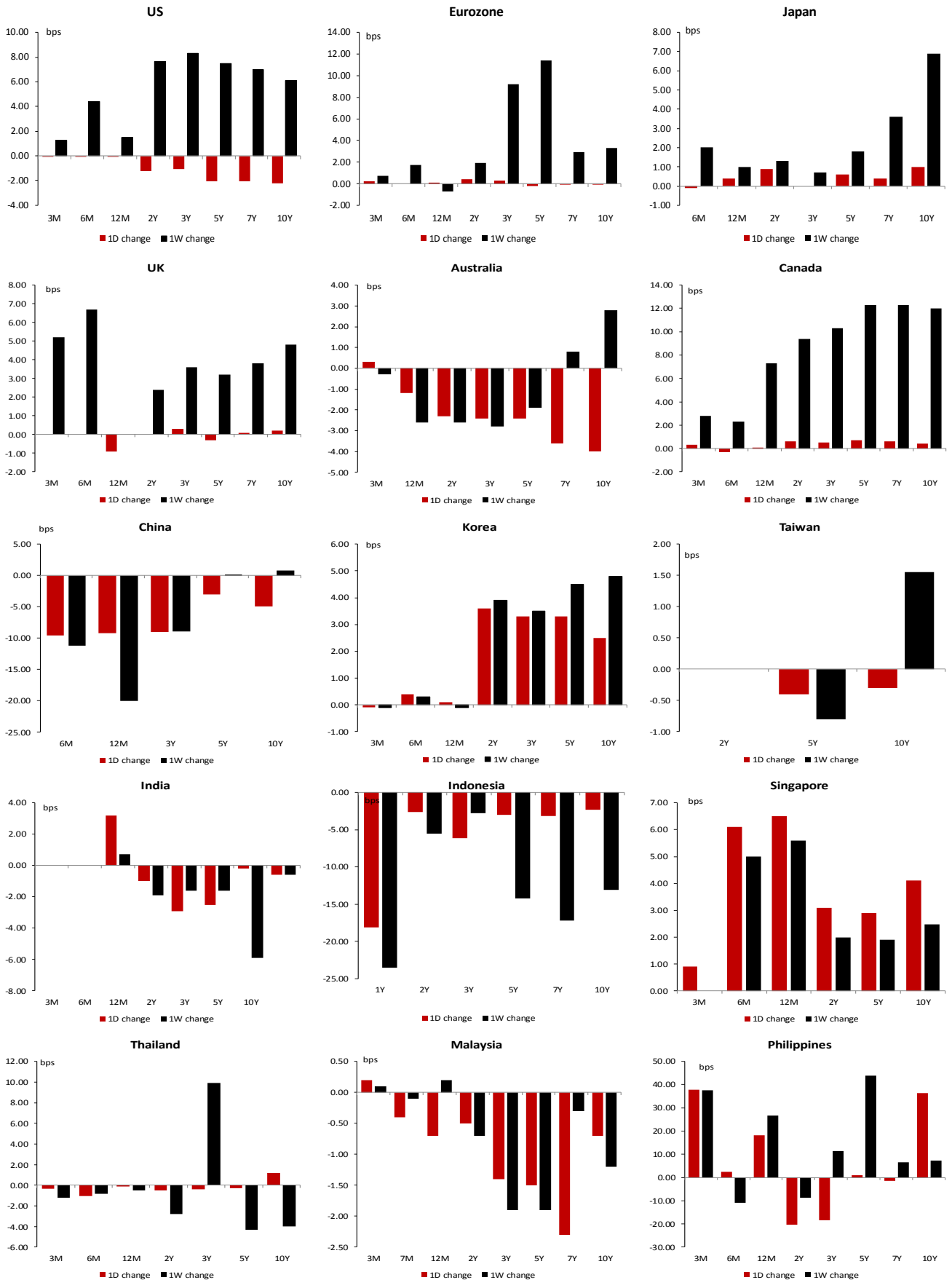
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes



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