

Tuesday, July 31, 2018

FX Themes/Strategy/Trading Ideas – Revised FX forecasts

- With the broad USD still directionless, and stuck within a defined range, the attention will be on the central bank meetings this week, starting from the Bank of Japan (BOJ) later today, to potentially provide some new impetus.
- Markets remain edgy over the BOJ, with short end vols pushing higher. We do not expect to see a concrete policy change, in the form of a formal change to the “around 0%” phrase, or a shift in the yield curve control target from the 10y yield to the 5y. A change in the rhetoric about the JPY80tn JGB purchase target should be shrugged off by the markets.
- Tweaks allowing for more flexibility around the “around 0%” phrase are expected. However, it does seem somewhat counter-intuitive that the two most recent fixed-rate operations were conducted at 10 bps, compared to 11 bps in the past, if the message is to allow for greater tolerance on the topside. **At this juncture, do not rule out a “buy on fact” dynamic pushing the USD-JPY higher in the immediate aftermath, unless the BOJ surprises on the hawkish end.** Our implied valuation model suggests some room for the USD-JPY to search higher over the coming sessions.
- With no press conference following, we think the Aug FOMC should be a relative non-event. US economic prints has held firm, although trade issues remain a risk. Nevertheless, we note the improvements with EU and NAFTA, and the fact that trade issues have not translated to an adverse impact on the economic indicators. **We think the main issue is the slope of the yield curve, but this is unlikely to make it onto the statement itself. It is perhaps more meaningful to watch the FOMC minutes instead.** For now, Powell does not appear overly perturbed by the flattening yield curve, but pressure will only get higher from here.
- **Overall, observers looking for this week’s central bank meetings to spur new directionality may be disappointed. Near term volatility is to be expected, but we think the central banks are not ready to signal significant shifts that will emerge as structural drivers as yet.**
- In terms of CFTC positioning, the leveraged accounts continue to build implied USD longs. Leveraged accounts have maintained a heavy short position in the antipodeans, while a short-JPY positioning has also built up quickly over the past three weeks. These currencies may be most affected if there is an unwinding of USD longs. Asset managers, on the other, added to their net implied USD short positions marginally.

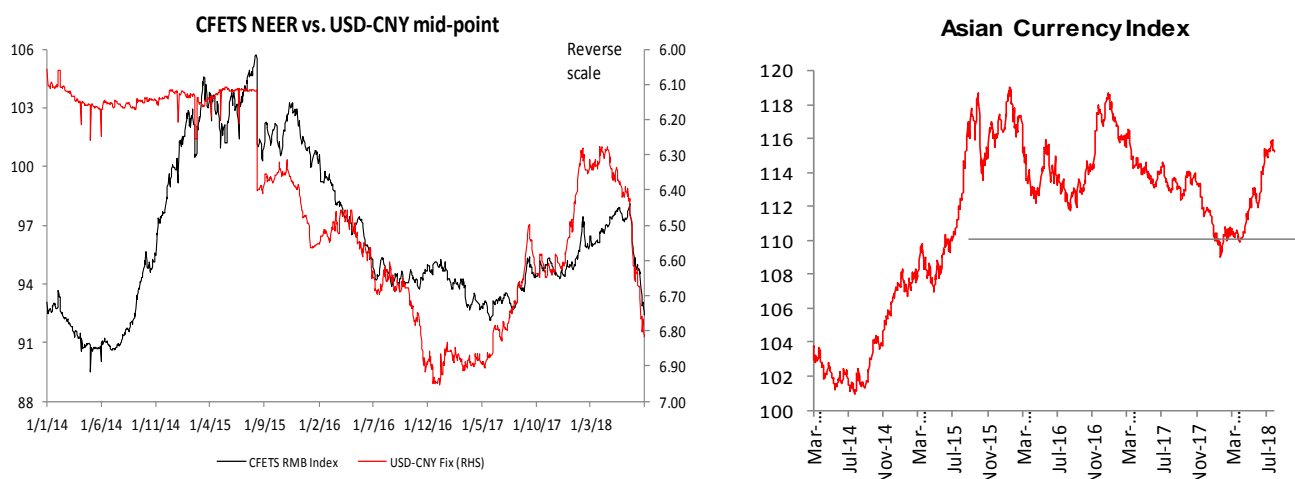
Treasury Research &
Strategy

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

- Apart from the central bank meetings, watch for global PMIs this week. In the US, watch for labour data, with the ADP (Wed), nonfarm payrolls and unemployment rate on tap (Fri). For today, watch for core PCE inflation (1230 GMT) in the US, and GDP and inflation prints in the Eurozone (0645 GMT onwards).

Asian FX

- US Commerce Secretary Ross added the anti-China chorus on the trade front, calling for an “aggressive stance” against China while the US economy is still strong. At this juncture, the pressure on China shows no sign of easing.
- Our **FX Sentiment Index (FXSI)** eased away from the Risk-On zone in the latest reading, after moving in that direction for the past six sessions. Positive risk sentiments have contributed, in part, to resilience in EM Asia ex China currencies in recent sessions.
- Asian central banks appear to be on the tightening move again, with the Bank of Korea appearing to position for another an upcoming rate move. The Reserve Bank of India (RBI) and the Bangko Sentral ng Pilipinas (BSP) also appear to hike in their respective meetings this week and next respectively. With the exception of the Malaysia and Taiwan, there appears to be signs of tightening in all other Asian central banks.
- **Positive risk sentiments and further tightening bias have pushed the Asian Currency Index (ACI) lower, despite the USD-CNY up-move. At this stage, we think this disconnect between the ACI and the USD-CNY to be temporary, and should re-engage in the coming sessions.**
- **SGD NEER:** The SGD NEER stood around +1.12% above its perceived parity level (1.3772) this morning. The NEER-implied USD-SGD thresholds continued to edge lower on renewed pressure on the USD. We expect an intra-day range between the +0.90% (1.3649) and +1.30% (1.3595) thresholds to hold. At this juncture, if the SGD NEER consolidates and persists over the +1.00% above parity threshold, this may point to a possible tightening move in the October MAS MPS.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations, at 6.8165 compared to 6.8131 on Monday. The CFETS RMB Index firmed marginally to 92.41, compared to 92.53 previously.



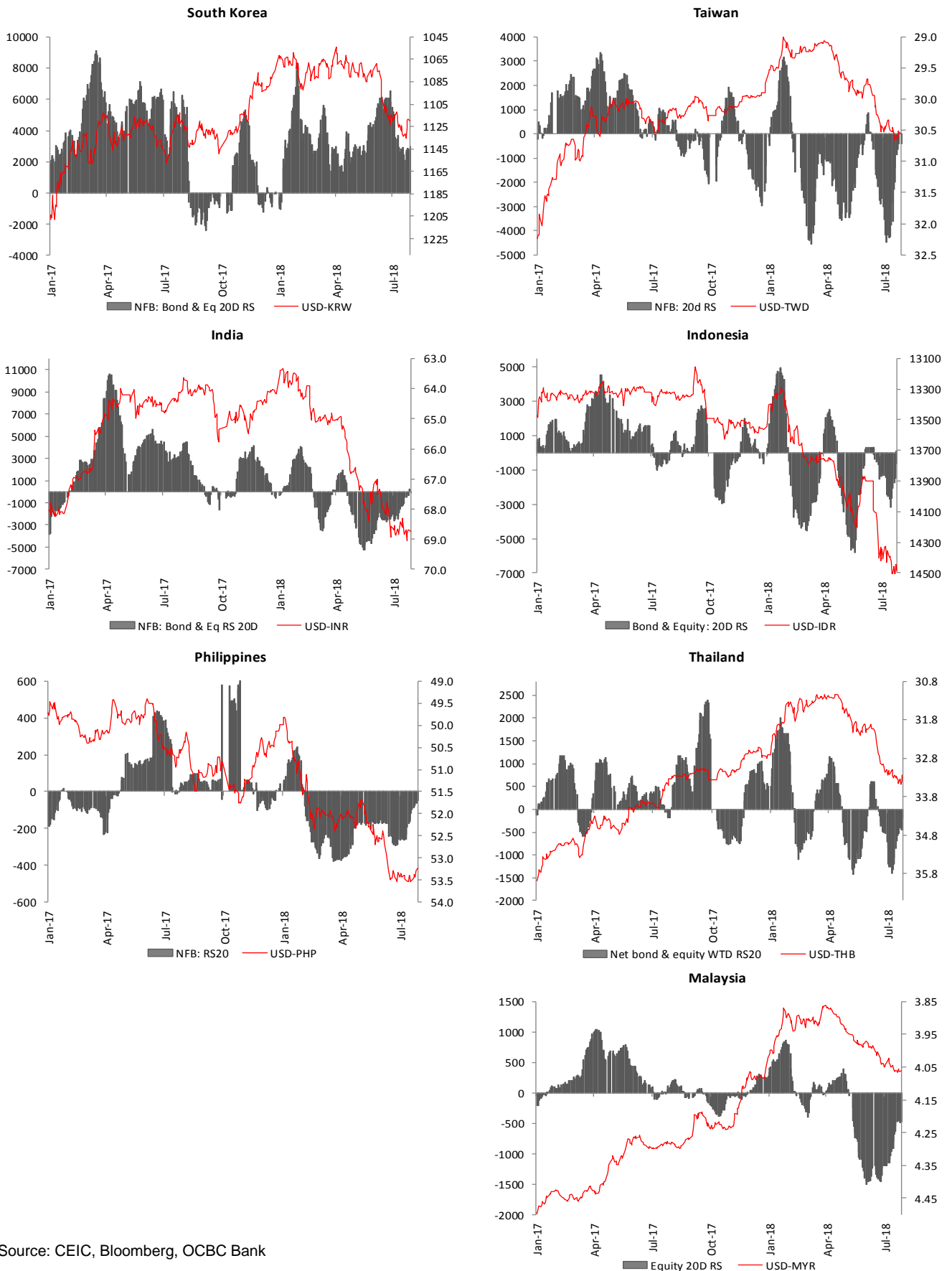
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Expansionary fiscal policy to complement monetary loosening to support the Chinese economy; 6.8000 handle should turn into a support going forward; 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; BOK governor signalling the need to review the accommodative policy
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 metrics; 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

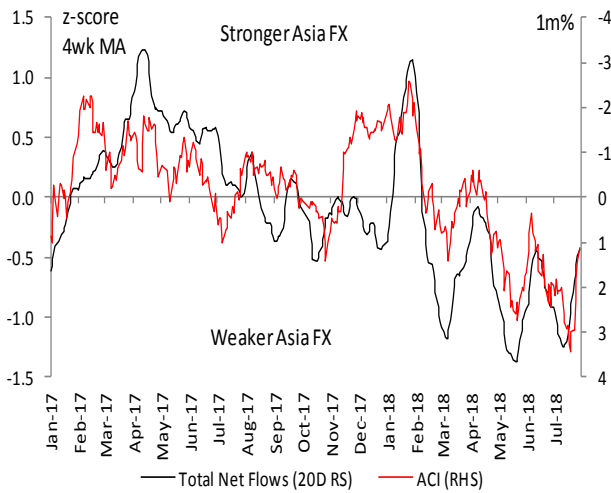
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



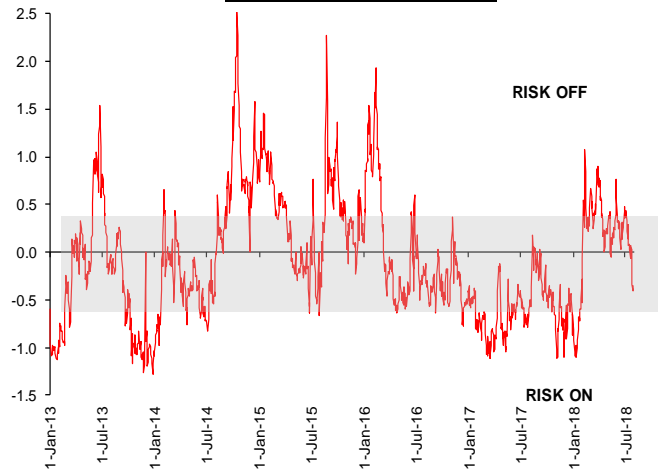
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.072	0.233	0.140	-0.030	-0.661	0.696	-0.485	-0.104	-0.142	0.301	-0.890
SGD	0.835	-0.191	0.134	-0.206	-0.325	-0.473	0.385	-0.239	0.242	0.213	0.190	-0.823
CHF	0.726	-0.422	-0.164	0.206	-0.045	-0.609	0.838	-0.347	-0.390	-0.166	-0.115	-0.514
JPY	0.696	-0.181	0.130	0.391	0.086	-0.803	1.000	-0.588	-0.531	-0.401	0.177	-0.357
CAD	0.675	-0.561	-0.240	-0.222	-0.520	-0.482	0.556	-0.100	0.006	0.295	-0.185	-0.467
KRW	0.506	0.198	0.495	0.441	0.226	-0.793	0.573	-0.679	-0.385	-0.433	0.502	-0.195
MYR	0.383	0.629	0.865	0.477	0.424	-0.558	0.133	-0.669	-0.193	-0.548	0.863	-0.372
PHP	0.362	-0.510	-0.317	0.031	-0.255	-0.423	0.512	-0.064	-0.333	0.038	-0.266	-0.099
THB	0.328	0.558	0.806	0.590	0.473	-0.769	0.433	-0.788	-0.496	-0.668	0.816	-0.068
CNH	0.301	0.826	0.989	0.656	0.676	-0.535	0.177	-0.722	-0.321	-0.762	1.000	-0.229
TWD	0.281	0.524	0.750	0.334	0.351	-0.532	0.106	-0.588	-0.075	-0.408	0.739	-0.200
IDR	0.263	0.623	0.782	0.504	0.454	-0.452	0.068	-0.575	-0.276	-0.516	0.785	-0.143
CNY	0.233	0.857	1.000	0.684	0.713	-0.512	0.130	-0.720	-0.337	-0.777	0.989	-0.159
USGG10	-0.072	1.000	0.857	0.630	0.808	-0.138	-0.181	-0.514	-0.252	-0.684	0.826	0.035
INR	-0.193	0.063	0.142	-0.091	-0.192	0.141	-0.397	0.163	0.128	0.143	0.130	0.197
GBP	-0.719	-0.468	-0.743	-0.372	-0.290	0.597	-0.392	0.610	0.147	0.439	-0.765	0.622
NZD	-0.722	0.372	0.145	0.399	0.378	0.282	-0.285	0.037	-0.389	-0.395	0.084	0.788
AUD	-0.723	0.093	-0.111	0.323	0.359	0.293	-0.171	0.152	-0.430	-0.268	-0.187	0.830
EUR	-0.890	0.035	-0.159	0.046	0.117	0.400	-0.357	0.311	-0.161	-0.053	-0.229	1.000

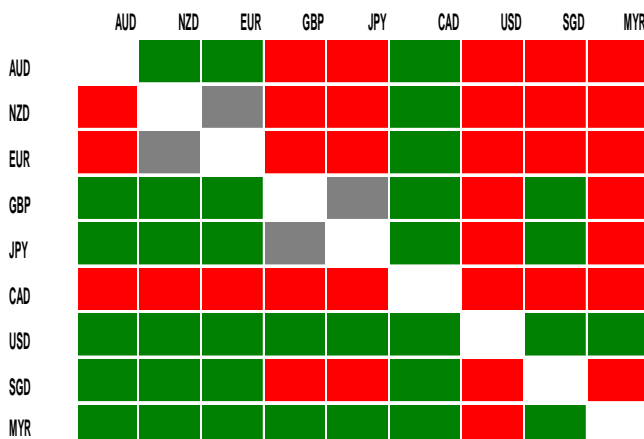
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1676	1.1700	1.1705	1.1760	1.1791
GBP-USD	1.3024	1.3100	1.3119	1.3200	1.3237
AUD-USD	0.7351	0.7400	0.7420	0.7462	0.7466
NZD-USD	0.6738	0.6800	0.6817	0.6851	0.6873
USD-CAD	1.3000	1.3014	1.3062	1.3100	1.3103
USD-JPY	110.59	111.00	111.12	112.00	113.06
USD-SGD	1.3562	1.3600	1.3623	1.3695	1.3700
EUR-SGD	1.5877	1.5900	1.5947	1.5987	1.6000
JPY-SGD	1.2200	1.2245	1.2259	1.2300	1.2368
GBP-SGD	1.7788	1.7800	1.7873	1.7900	1.7922
AUD-SGD	1.0100	1.0102	1.0109	1.0142	1.0156
Gold	1209.78	1210.70	1219.40	1263.98	1264.95
Silver	15.19	15.40	15.48	15.50	16.13
Crude	69.08	70.10	70.17	70.20	74.66

Source: OCBC Bank

G10 FX Heat Map



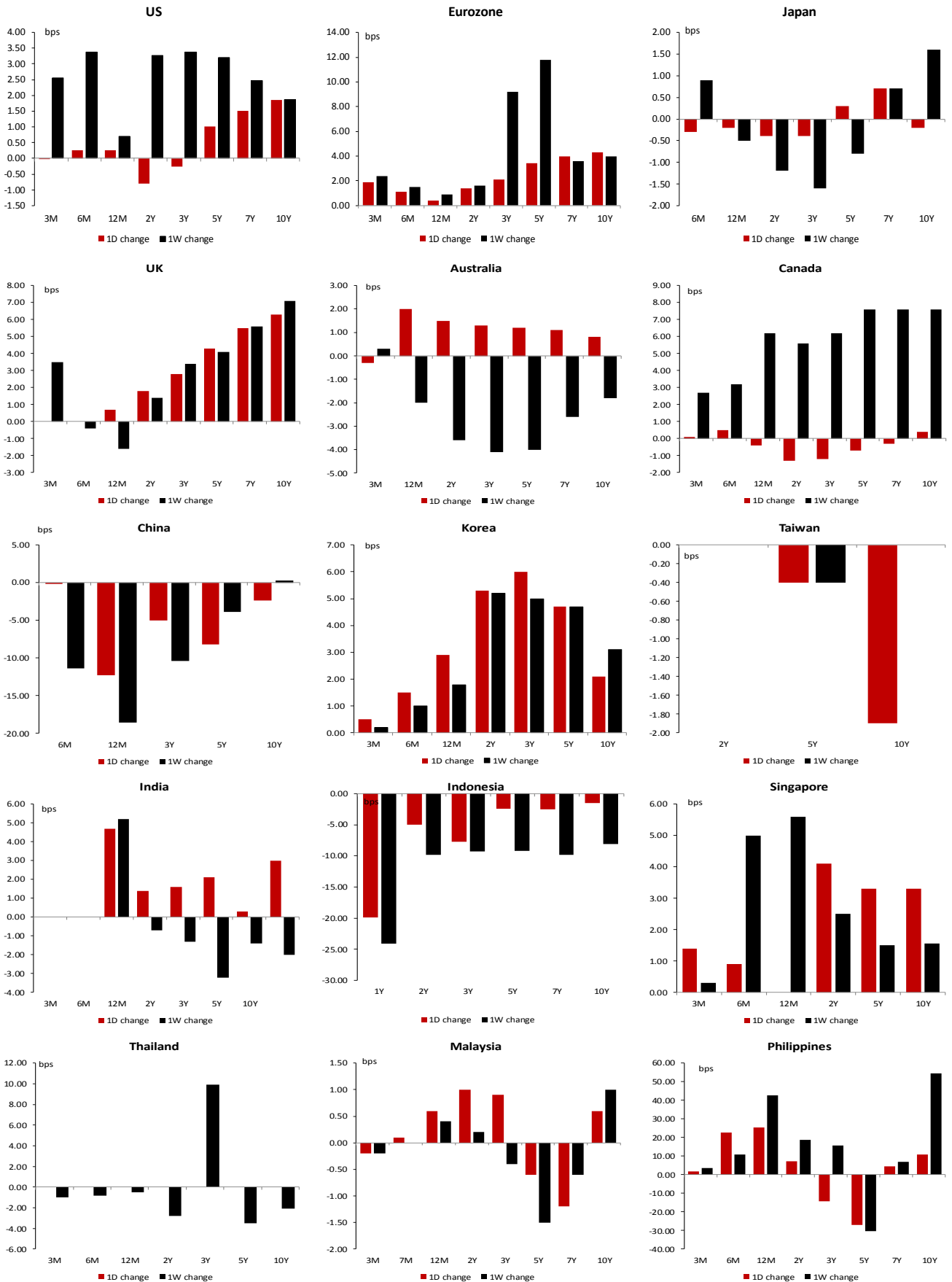
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Revised FX Forecasts (correct as of 27 July)

	Spot	Aug-18	Sep-18	Dec-18	Mar-19
USD-JPY	111.11	110.50	111.43	112.68	113.16
EUR-USD	1.1638	1.1620	1.1523	1.1620	1.1912
GBP-USD	1.3091	1.3201	1.3131	1.2963	1.3077
AUD-USD	0.7381	0.7307	0.7279	0.7229	0.7195
NZD-USD	0.6773	0.6702	0.6671	0.6594	0.6524
USD-CAD	1.3069	1.3000	1.2935	1.2806	1.2711
USD-CHF	0.9949	1.0026	1.0011	0.9908	0.9776
USD-SGD	1.3626	1.3698	1.3741	1.3748	1.3660
USD-CNY	6.8106	6.8326	6.8576	6.7937	6.7230
USD-THB	33.29	33.10	33.38	33.75	33.37
USD-IDR	14458	14529	14565	14633	14617
USD-MYR	4.0677	4.0888	4.1002	4.0956	4.0518
USD-KRW	1117.2	1127.00	1132.10	1141.53	1140.23
USD-TWD	30.588	30.720	30.820	31.040	31.000
USD-HKD	7.8485	7.8480	7.8480	7.8464	7.8441
USD-PHP	53.36	53.59	53.67	53.61	53.39
USD-INR	68.72	69.26	69.59	70.19	69.95
EUR-JPY	129.31	128.40	128.40	130.37	133.35
EUR-GBP	0.8889	0.8802	0.8776	0.8925	0.9012
EUR-CHF	1.1579	1.1650	1.1536	1.1476	1.1554
EUR-SGD	1.5858	1.5917	1.5833	1.5905	1.6098
GBP-SGD	1.7839	1.8083	1.8042	1.7822	1.7863
AUD-SGD	1.0057	1.0009	1.0002	0.9938	0.9828
NZD-SGD	0.9230	0.9180	0.9166	0.9065	0.8912
CHF-SGD	1.3696	1.3662	1.3725	1.3860	1.3933
JPY-SGD	1.2264	1.2396	1.2332	1.2200	1.2072
SGD-MYR	2.9852	2.9932	2.9840	2.9791	2.9662
SGD-CNY	4.9982	4.9880	4.9908	4.9417	4.9217

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