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FX forecast refresh

- FX dynamics going into March promises to be a minefield of distractions. Barring an acute unwinding of confidence in the greenback from a spike in geopolitical trade tensions, the USD may attempt to base build against the majors in the coming weeks as we head into the 21st March 2018 FOMC (and the accompanying statement plus Fed projections).
- US Treasury yields almost round tripped in the past month but are slightly firmer nevertheless. Meanwhile, despite aggregated rate differentials also moving in favor of USD resilience in the past month, the broad dollar has only managed to the top of its recent range. Certainly, the news flow out of the US (data releases, FOMC statement/minutes, Fed-speak, especially from Powell) has been constructive for USD prospects, and to this end, continue to monitor market implied odds for a 4th rate hike this year and/or the 10y UST yield breaching 3.00% in the coming weeks.
- However, the prospect of heightened global trade tensions (from US imposition of tariffs on steel and aluminum for example) may threaten to erode (or even over ride) any bounce in the USD as a first reaction if geopolitical concerns escalate (i.e., from the prospect of retaliatory action from China).

It's not just the Fed

- Structurally however, the broad weak dollar narrative may continue to hum in the background and the rallying point for this construct we think may remain squarely on the shoulders of the ECB. On this front, investors may remain on the lookout for any expected change in the ECB's forward guidance or intent to change in the coming months (no watershed announcement at the March Council meeting).
- Meanwhile, given how the other cyclical central banks (RBA and RBNZ for example) have remained less than hawkish and abstained from unduly hawkish cues thus far, sensitivity to perceived cues from the other global central banks is also expected to be heightened and the resulting interplay of central bank dynamics may remain in a flux.
- To this end, although coincident macroeconomic activity indicators remain supportive (as opposed to more cautionary signals from leading indicators), global inflation dynamics also remain largely subdued and it should not surprise that global long-end yields have capitulated lower

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since the latter part of February as the short duration crowd undergoes a reassessment in the near term. In addition, global risk appetite levels are currently in a slightly more nervous state and carry may continue to remain out of favor in this environment.

Asia – Between a rock and a hard place

- In Asia, looking beyond the initial negativity being attached to the USD on the back of the US tariff new flow, a more insidious impact from any escalation of global trade tensions would be a negative hit on global trade flows, heightened geopolitical tensions (especially if the EZ and China weigh in), and a resultant deterioration of investor sentiment. In such an environment, expect risk premiums to widen and EM/Asia to bear the brunt.
- The regional pairs may remain hesitant on the downside and continue to lack a strong net portfolio inflow backstop. Note that the positive impetus for regional currencies from net portfolio inflows has petered out in recent weeks (note especially outflows on the equity front) while implied funds data denote net implied inflows into Asian equities and bonds (excl Japan, China) have moderated significantly on a rolling 4-week basis, continues to portend diminishing structural support for regional FX.
- A resurgence of inflows (actual or implied) may be absent in the near term if risk appetite levels continue to straddle the ground between Risk-Neutral and Risk Off.
- There may however remain some scope for intra-regional differentiation however (both in bonds and FX), with an attempt to stabilize in South Korea (if the recent moderation in net bond inflows bottom out) in Thailand, where recovering net bond inflows are offsetting equity outflows. Elsewhere, note recent deepening of net outflows (bonds and equities) for India and Indonesia (significant bond outflows in recent weeks as positive sentiment fizzled out).
- On other fronts, some market caution towards a stronger dollar outcome against the **renminbi complex** has heightened slightly of late. As such, expect the regional currencies (including the SGD) to remain relatively vulnerable to potential dollar strength. We however continue to expect policy continuity on the RMB front, with no expected official discretionary bias to ruffle the CFET RMB Index from current ranges.

Revised central tendency forecasts (as at 01 Mar 18)

	Spot	Mar-18	Jun-18	Sep-18	Dec-18
USD-JPY	106.79	107.85	105.88	107.61	109.34
EUR-USD	1.2188	1.2100	1.2250	1.2400	1.2550
GBP-USD	1.3753	1.3615	1.3972	1.4069	1.4166
AUD-USD	0.7726	0.7655	0.7644	0.7778	0.7911
NZD-USD	0.7200	0.7125	0.7356	0.7417	0.7479
USD-CAD	1.2842	1.2960	1.2961	1.2694	1.2428
USD-CHF	0.9455	0.9525	0.9324	0.9278	0.9231
 USD-SGD	 1.3259	 1.3315	 1.3134	 1.3071	 1.3007
USD-CNY	6.3432	6.3988	6.3532	6.3281	6.3030
USD-THB	31.53	31.70	31.14	30.98	30.81
USD-IDR	13784	13830	13828	13761	13694
USD-MYR	3.9303	3.9530	3.8739	3.8406	3.8072
USD-KRW	1086.38	1095.00	1094.44	1077.78	1061.11
USD-TWD	29.32	29.400	28.967	28.867	28.767
USD-HKD	7.8277	7.8270	7.8278	7.8286	7.8295
USD-PHP	52.028	51.90	52.29	51.81	51.32
USD-INR	65.24	65.50	65.58	64.91	64.24
 EUR-JPY	 130.16	 130.50	 129.70	 133.44	 137.23
EUR-GBP	0.8862	0.8887	0.8767	0.8814	0.8860
EUR-CHF	1.1524	1.1525	1.1422	1.1504	1.1585
 EUR-SGD	 1.6160	 1.6111	 1.6089	 1.6207	 1.6324
GBP-SGD	1.8235	1.8128	1.8351	1.8389	1.8425
AUD-SGD	1.0244	1.0193	1.0040	1.0166	1.0290
NZD-SGD	0.9546	0.9487	0.9661	0.9695	0.9728
CHF-SGD	1.4023	1.3979	1.4085	1.4088	1.4091
JPY-SGD	1.2416	1.2346	1.2405	1.2146	1.1896
SGD-MYR	2.9643	2.9688	2.9495	2.9383	2.9270
SGD-CNY	4.7841	4.8057	4.8373	4.8415	4.8458

Source: OCBC Bank

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