

Thursday, June 20, 2019

## Fed, Sino-US relations and FX - Not the typical search for yield

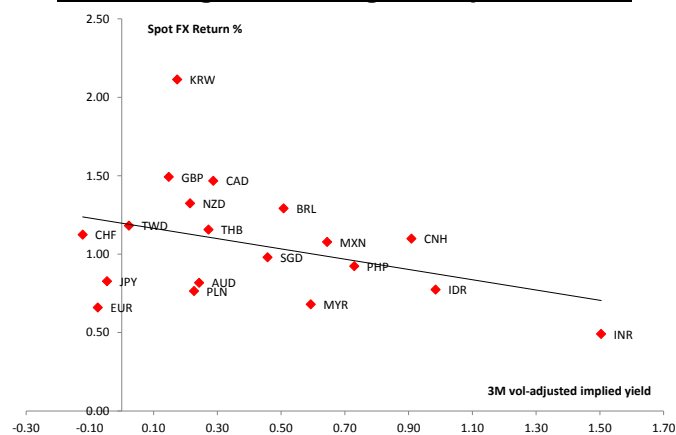
- FX markets have had volatile couple of sessions (see chart below) with the interim thawing of Sino-US trade tensions and in the aftermath of the FOMC on Wednesday. While perceived risk appetite levels have improved and bond and equity markets have reacted accordingly, the physics behind the FX markets have been not so clear cut. Given the more dovish than expected outcome of the FOMC, the typical reaction for the heightened search for yield has not played exactly according to the usual playbook. This instead has only been borne out in extremis, with the only exceptions within this metric being the ZAR and the TRY.
- Filtering out these two outliers, we find instead more idiosyncratic and structural factors at play:
  - Positive expectations towards some compromise on the Sino-US front at next week's G20 has boosted the CNH. On a related note, hitherto underperforming North Asian currencies like the KRW, TWD, and SGD have bounced.
  - Recency effect from data points have seen market participants imputing a less dovish stance for some currencies relative to the FOMC – i.e., GBP, CAD, NZD.
  - Currencies with dovish central bank intent pre-dating the FOMC have lagged.
- Going ahead, we expect more structural considerations to come into play, including central bank reactions to the Fed as well as net portfolio flow considerations. In the interim, pure FX yield considerations may prove secondary.

Treasury Research & Strategy

**Emmanuel Ng**  
 +65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

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

**Yield having little bearing on FX performance**



Source: OCBC Bank

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