FX Viewpoint

Thursday, November 02, 2017

FX forecast refresh

- In the same vein as the last two months, the DXY may potentially continue to carve out a multi-month bottom into the month of November, with budget deliberations set to conclude before Thanksgiving and potentially underpinning the greenback along the way.

- Fed-chair nominations are also expected in the first few days of November and latest indications point to Powell while the vice chair nomination is still in the air but may fall on Taylor's lap. As noted elsewhere, this combination would be ideal and would essentially ensure policy continuity (from Yellen) while providing a potentially more hawkish ballast (from Taylor) when the environment so demands.

- Meanwhile, the FOMC on 01 Nov 17 proved uneventful with no material changes to the prognosis apart from glossing over temporary impacts from the hurricanes. Overall, odds of a December rate hike in December remain cemented without introducing any additional tilt to longer term policy posture or market implied expectations (i.e., a yawn for Treasuries and the USD).

- Technically, markets are looking for confirmation (again) that the DXY will be able to subsist in a new (and higher) range of 94.00-96.00, especially if the 10y UST yield is able to also stake out a firmer 2.40-2.60% range in the coming weeks. **As it currently stands, aggregate rate differential dynamics (both short and long-end and with other major global bonds outperforming relative to Treasuries) continue to portend intrinsic support for the USD in the interim.**

Fed's counterparts getting cold feet?

- What has become evident in recent weeks is that investors have also been trading off idiosyncratic pockets of weakness in the other major currencies and this may continue to pervade markets in the near term. Although global economic activity (US/EZ/Asian Macro Surprise Indices remain securely in positive territory) and inflation indicators have continued to stabilize (albeit with no immediate urgency on the upside), other major central banks (ECB, BOE, RBA, BOC, for example) have taken pains to discourage excessively hawkish expectations, leaving the greenback as a de facto destination.

- Nowhere has this been more apparent than in the EUR, with the ECB's much anticipated "taper" announcement late October largely in line with

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Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

prior expectations but peppered with a more than healthy dose of caution**. Thus, the global FX narrative may see the US-centric news flow dominate in the near term (in contrast to the last few months), especially if the other G7 central banks remain less than enthusiastic about their respective growth/inflation outlooks while continuing to express discomfort towards undue appreciation of their domestic currencies.**

- On a related note, markets may remain less than excitable with **short-end FX vols** (G7 as well as EM in general) being whittled lower in recent weeks despite being confronted with headline risks, indicating perhaps that price action going ahead may remain more of a grind. The risk then is that markets may be caught acutely short gamma in the event of unexpected headline risks.

CNY complex

- The renminbi complex meanwhile has seen the CFET RMB Index holding relatively steady despite the ascent of the broad dollar indices since early September although this has necessitated a slight firming in the USD-CNY. Going ahead, while the external balance of payments situation for China continues to whittle away at any NEER depreciation expectations, a strong impetus for discretionary appreciation of the basket is still not apparent. **Our house view therefore is still for range bound behavior for the CFETS RMB Index, with perhaps an incremental shift in the upper boundaries in the coming months**.

- On a related note, with the Party Congress now concluded, the realized vol of the mid-points and the NEER may plausibly be expected to continue to mean revert higher. As such, if the broad dollar complex continues to attempt to inch higher in the coming weeks, expect a sympathetic reaction in the USD-CNY.

Asian FX

- For the rest of Asia it remains to be seen if the regional currencies can continue to outperform their G10 counterparts in aggregate, especially with implied and actual portfolio inflows hesitating in recent weeks and with investors beginning to differentiate within the region. Nonetheless, we have been detecting a recovery in inflows (or a moderation of outflow momentum) and this dynamic continues to improve, Asian FX may be afforded a larger buffer to potentially lean against a firmer USD in the near term.

- Amid positive macro surprises, foreign reserve accumulation and (generally) benign inflation conditions, Asian FX are still perceived to have little in the way of stark negatives at this juncture. The perennial caveat however may potentially come from investor risk appetite for EM/Asia although at this juncture, we take comfort that our **FXSI (FX Sentiment Indicator)** has ventured into Risk-On territory.

SGD Outlook

- For the SGD NEER, the MAS MPS on 13 October 17 came in in line with our prior expectations, with the monetary authority maintaining its "for an extended period" phrasing. With little urgency to normalize policy just yet, we do not expect the SGD NEER to exhibit near term urgency to test the +1.00% threshold of its fluctuation band, let alone test the upper +2.00% boundary. As such, we'd not expect outright or broad based SGD outperformance based on the above (USD-SGD downside is not expected to be forthcoming barring a relapse of the broad dollar) and instead look to accompanying narratives when considering any of the SGD-crosses.

- To this end, we expect the SGD to potentially outperform the EUR (ECB disappointment, Catalonia, domestic German politics) and the GBP (Brexit overhang, BOE unlikely to actively encourage rate hike expectations). Meanwhile, despite still fairly sanguine global risk appetite levels, the antipodeans have continued to fall victim to either a disappointing data feed, central bank jawboning, or in the case of the NZD, political developments including a potential change in the RBNZ's policy mandate. As such, the AUD, NZD, and CAD may continue to underperform the SGD in the coming weeks.

Revised central tendency forecasts (as at 01 Nov 17)

	Spot	Dec-17	Mar-18	Jun-18	Sep-18
USD-JPY	113.82	114.98	116.06	116.89	117.72
EUR-USD	1.1635	1.1548	1.1444	1.1307	1.1171
GBP-USD	1.3277	1.3418	1.3323	1.3079	1.2836
AUD-USD	0.7667	0.7580	0.7528	0.7473	0.7418
NZD-USD	0.6907	0.6825	0.6767	0.6717	0.6667
USD-CAD	1.2903	1.3080	1.3189	1.3322	1.3456
USD-CHF	0.9985	1.0085	1.0133	1.0183	1.0233
USD-SGD	1.3617	1.3708	1.3783	1.3833	1.3883
USD-CNY	6.6173	6.6532	6.6829	6.7204	6.7583
USD-THB	33.166	33.30	33.63	33.83	34.03
USD-IDR	13586	13625	13672	13706	13739
USD-MYR	4.2307	4.2388	4.2588	4.2869	4.3151
USD-KRW	1114.63	1107.50	1111.67	1121.67	1131.67
USD-TWD	30.156	30.100	30.306	30.539	30.772
USD-HKD	7.8022	7.7925	7.7989	7.8122	7.8256
USD-PHP	51.597	51.63	52.03	52.14	52.26
USD-INR	64.53	64.43	64.87	65.36	65.84
EUR-JPY	132.43	132.77	132.81	132.17	131.50
EUR-GBP	0.8763	0.8606	0.8590	0.8645	0.8702
EUR-CHF	1.1618	1.1646	1.1596	1.1515	1.1431
EUR-SGD	1.5843	1.5829	1.5773	1.5642	1.5508
GBP-SGD	1.8079	1.8392	1.8363	1.8093	1.7821
AUD-SGD	1.0440	1.0390	1.0377	1.0338	1.0299
NZD-SGD	0.9405	0.9355	0.9327	0.9291	0.9256
CHF-SGD	1.3637	1.3592	1.3602	1.3584	1.3567
JPY-SGD	1.1964	1.1922	1.1876	1.1835	1.1793
SGD-MYR	3.1069	3.0923	3.0898	3.0990	3.1081
SGD-CNY	4.8596	4.8537	4.8486	4.8582	4.8679

Source: OCBC Bank

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