FX Viewpoint

Thursday, August 31, 2017

FX forecast refresh – Crunch time?

- The broad dollar may be expected to remain under downside pressure (note that the 10y UST yield dripped below 2.20% again in August and our US Macro Surprise Indices bled into negative territory in 3Q 17) into September with headline risks expected to be highly evident. Near term however, retracement prospects cannot be ruled out given already stretched (short dollar) positioning.

    - With no surprises out of Jackson Hole by Yellen, the USD narrative with regards to future rate hikes may remain passive, and much will rest upon the FOMC on 20 September 2017, where balance sheet tapering plans are expected to be announced. Meanwhile, uncertainty from potential negative US-centric risks for the USD remain apparent, ranging from the debt ceiling to the lack of fiscal impetus, to the unpredictable nature of policy pronouncements on social media from the US Presidency.

    - Note also that from a technical perspective, several of the major currency pairs (including USD-SGD) are also on the cusp of challenging major technical levels and depending on the eventual outcome of headline risks, may either prove to be a watershed for aggravated USD weakness or simply a terminal point for G10 currency outperformance against the USD in the near term.

    - On the positioning front, although the weak dollar trade may be getting increasingly crowded, the spec community we think has ample space to continue to load up for bear before positioning is considered extreme on a structural basis.

- With global inflation prospects still relatively benign, a positive USD narrative a non-starter (if not fragile), and the threat of tighter global monetary conditions still not imminent, investors may instead continue to look for hints of contrasting dynamics from the other global central banks. On this front, the ECB (next policy meeting on 07 September 2017) may remain the most obvious candidate, with the central bank expected to unveil its balance sheet tapering intentions from the fall. If no further discomfort towards the EUR's valuation (we reiterate that the EUR is not deemed overvalued on an effective basis at this juncture) is expressed by the ECB, investors may continue to latch on to EUR resilience.

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

- The Bank of Japan remains sufficiently accommodative and the JPY is expected to remain a function of risk appetite fluctuations and USD-related risks. The GBP meanwhile may continue to underperform its peers on the back of Brexit baggage (note that the stance from the EU continues to be less than charitable) and a supported EUR-GBP.

- Elsewhere, global risk appetite levels have sobered up slightly in recent weeks and are currently in Risk-Neutral territory, as opposed to being in Risk-On territory in previous months. Therefore, expect investors to be slightly less inebriated compared to the summer months, portending greater room for asset market volatility in the months ahead.

    - However, the hunt for yield/carry may continue to have legs, given that short term EM FX vols in aggregate continue to be on a lower rung compared to their G10 counterparts. This may continue to permit relative resilience for the cyclical/EM/Asian currencies.

- Although investor interest towards EM continues to hold a slight edge over flows into DM markets, note that net portfolio capital inflow momentum into Asia in recent weeks has begun to moderate slightly, leaving slightly less buffer for risk aversion and USD strength in Asia. This may portend less homogeneity across the Asian pairs in the coming weeks. Nonetheless, our structural model for Asian currencies (ACI, or Asian Currency Index) continues to point towards a lower profile for USD-Asia in aggregate.

    - Elsewhere, the renminbi complex (including the CFETS RMB Index and the USD-CNY midpoints) is expected to remain responsive to global currency movements, and in the current USD environment, still leave the CNH as a favored destination (note however that this presumption is becoming increasingly conspicuous) at the expense of the USD. As mentioned previously, this will impart a positive externality on the rest of the Asian currencies.

    - On a structural note however, note that the CFETS RMB Index and a broad dollar index like the DXY for example, have parted ways in recent weeks. Since late July 17, the CFETS RMB Index rose approximately +1.88% even as the DXY weakened around -0.99%. This is a slight departure from the longer term positive correlation between the 2 indices and may bear further scrutiny. In the interim, this development may continue to engender renminbi expectations in the near term.

- Meanwhile, the SGD NEER has continued to persist in the upper half of its perceived fluctuation band (partially on the back of a vulnerable broad dollar) with the USD-SGD still expected to remain more a function of external dynamics with little impetus from the domestic front.

- With respect to the SGD-crosses, the SGD may potentially continue to underperform the EUR and the CNH, but outshine the NZD and the GBP in the near term. The SGD's trajectory with respect to the AUD and the CAD may be a little more range bound, and would have to be predicated on investor appetite towards risky assets in the coming weeks.

<u>Revised central tendency forecasts</u>

	Spot	Sep-17	Dec-17	Mar-18
USD-JPY	110.52	111.20	109.65	111.60
EUR-USD	1.1879	1.1800	1.2047	1.1767
GBP-USD	1.2926	1.2800	1.2998	1.2811
AUD-USD	0.7901	0.7860	0.8019	0.7821
NZD-USD	0.717	0.7100	0.7051	0.6994
USD-CAD	1.2643	1.2725	1.2411	1.2744
USD-CHF	0.9639	0.9650	0.9597	0.9737
USD-SGD	1.3583	1.3620	1.3500	1.3650
USD-CNY	6.5977	6.5754	6.5266	6.5988
USD-THB	33.195	33.30	33.11	33.89
USD-IDR	13345	13350	13406	13422
USD-MYR	4.2710	4.2673	4.2733	4.3133
USD-KRW	1127.25	1120	1119	1133
USD-TWD	30.155	30.050	30.344	30.478
USD-HKD	7.8257	7.8257	7.8269	7.8280
USD-PHP	51.2	51.30	51.61	51.94
USD-INR	64.04	64.10	64.49	64.91
EUR-JPY	131.29	131.22	132.09	131.32
EUR-GBP	0.9190	0.9219	0.9268	0.9185
EUR-CHF	1.1450	1.1387	1.1561	1.1457
EUR-SGD	1.6135	1.6072	1.6263	1.6062
GBP-SGD	1.7557	1.7434	1.7547	1.7487
AUD-SGD	1.0732	1.0705	1.0826	1.0675
NZD-SGD	0.9739	0.9670	0.9519	0.9547
CHF-SGD	1.4092	1.4114	1.4067	1.4019
JPY-SGD	1.2290	1.2248	1.2312	1.2231
SGD-MYR	3.1444	3.1331	3.1654	3.1600
SGD-CNY	4.8573	4.8278	4.8345	4.8343

Source: OCBC Bank

Co.Reg.no.:193200032W