

# **FX – Stepping into 2018, with a pinch of salt**

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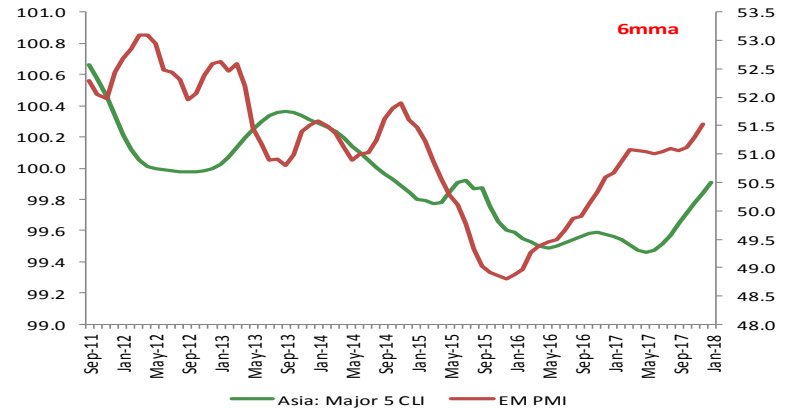
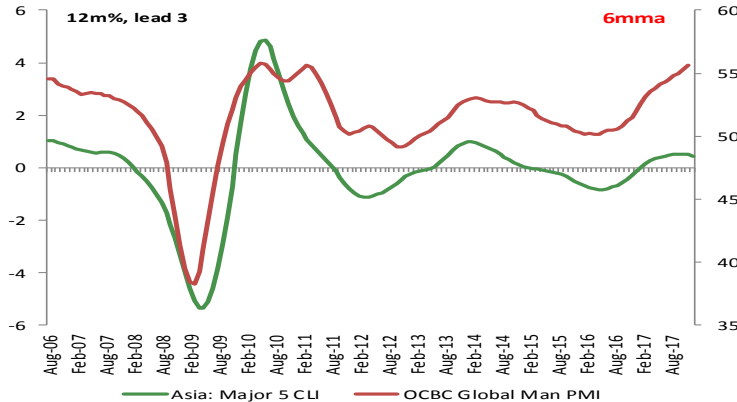
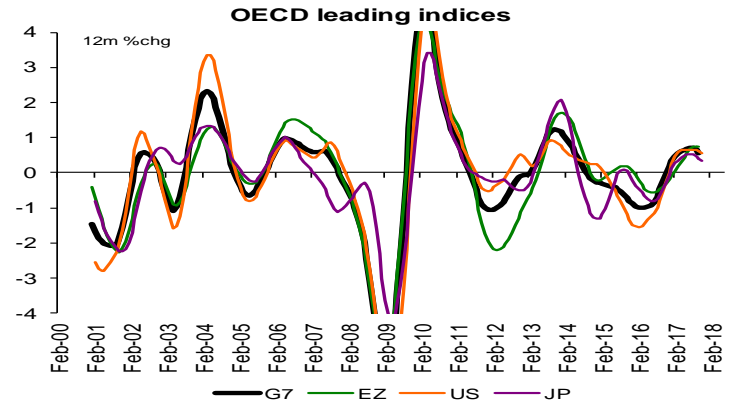
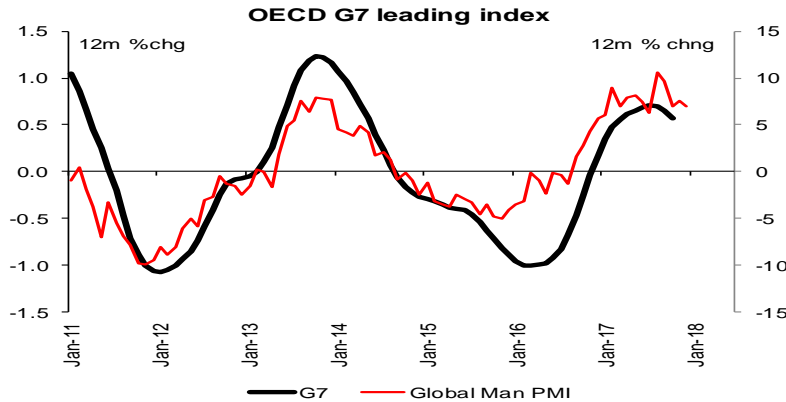
Global Treasury, OCBC Bank

12 January 2018



# Global macro outlook

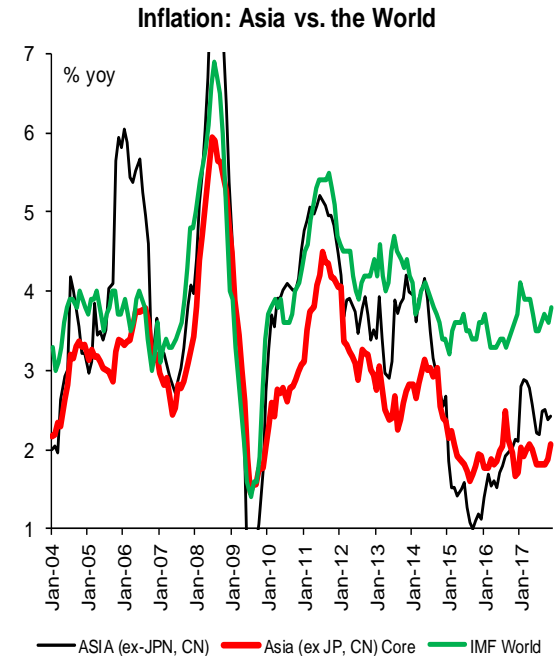
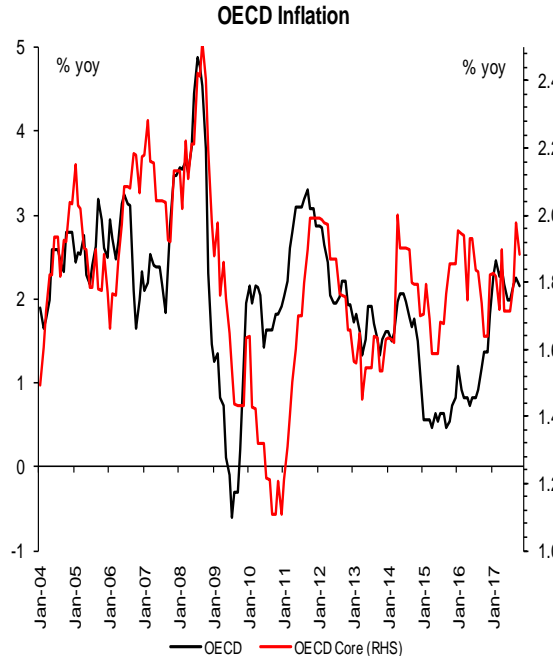
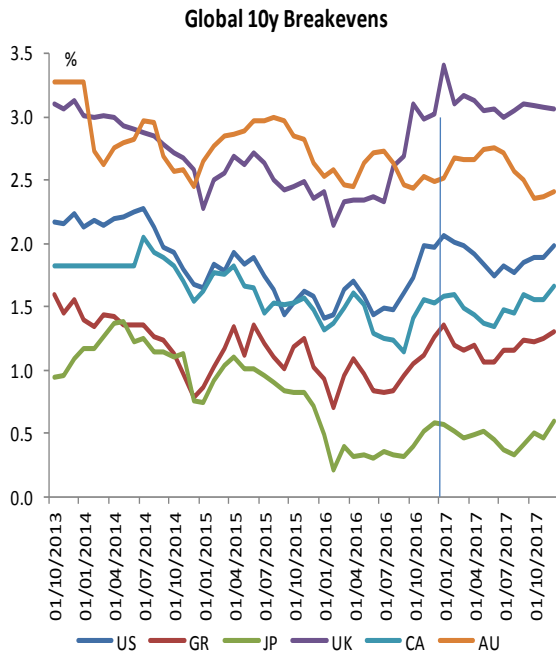
- In the near term, markets may continue to bask in relatively positive global economic prints, content in the near term to disregard nascent signs of a moderating global economy deeper into 2018.



Source: OCBC Bank, Bloomberg

# Global inflation landscape

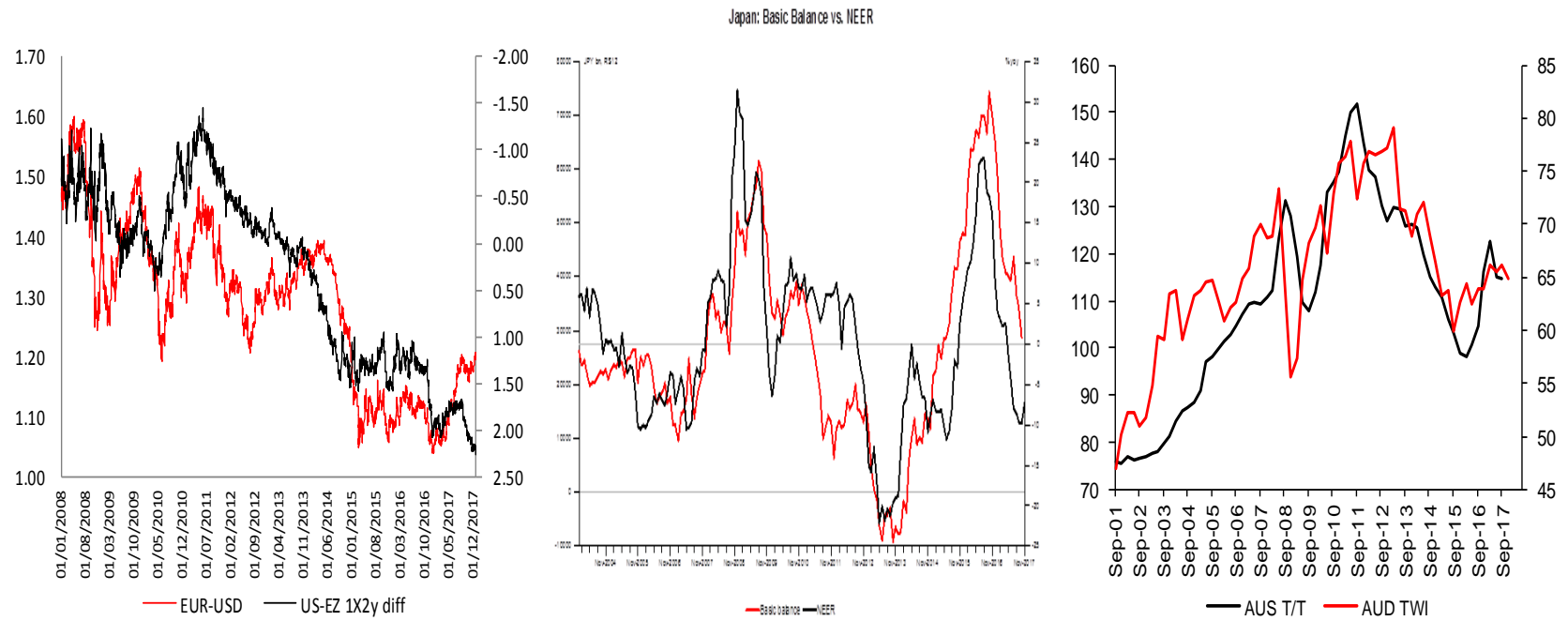
- The consensus narrative favours a potentially softer USD profile into 2018 as global central banks join the Fed in tightening monetary conditions – remember, countercyclical characteristics of the USD.
- This presumption is however not fool proof, i.e., counterpart central banks would have to behave as expected in 2018 by engaging a more hawkish tilt.



Source: OCBC Bank, Bloomberg

# Fragmentation?

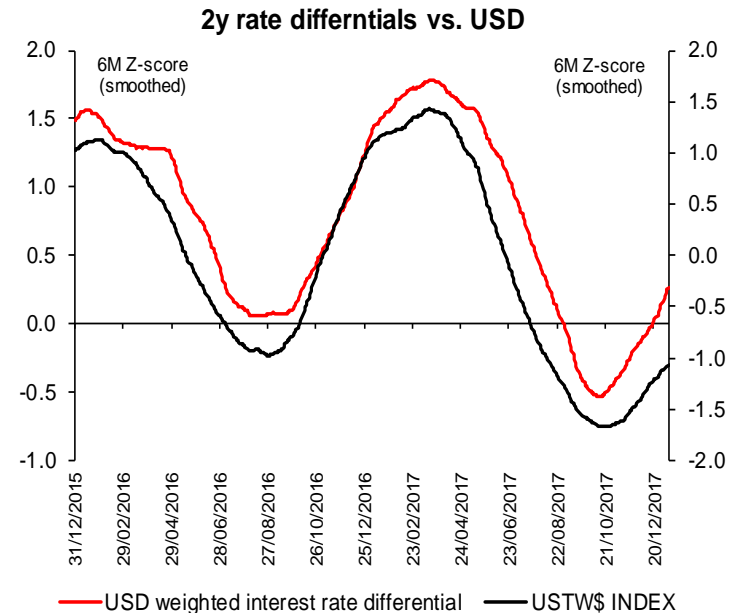
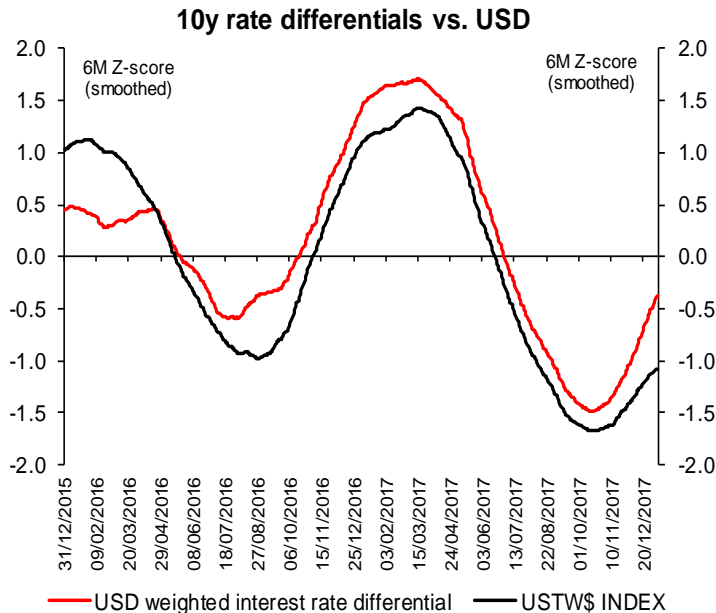
- Outside of the USD sphere, the narrative is expected to be increasingly disparate as we head deeper into 2018, especially 2H 18.
- The BOJ is expected to remain entrenched in an accommodative stance.
- The ECB is tapering its QE and markets may continue to impute increasingly hawkish intentions. Risk of disappointment if the ECB fails to deliver on this front.
- “Containment” in China and a moderation in terms of trade impacts may imply that AUD prospects will increasingly hinge on perceived RBA hawkishness.



Source: OCBC Bank, Bloomberg

# Broadly speaking

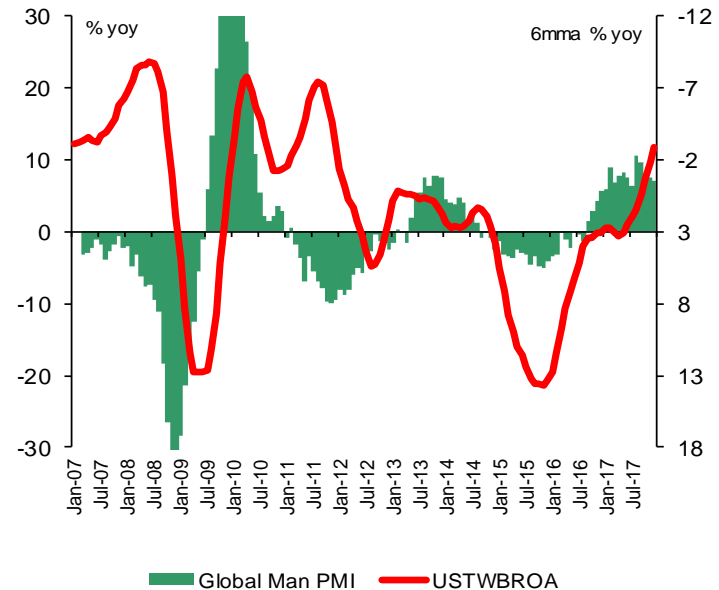
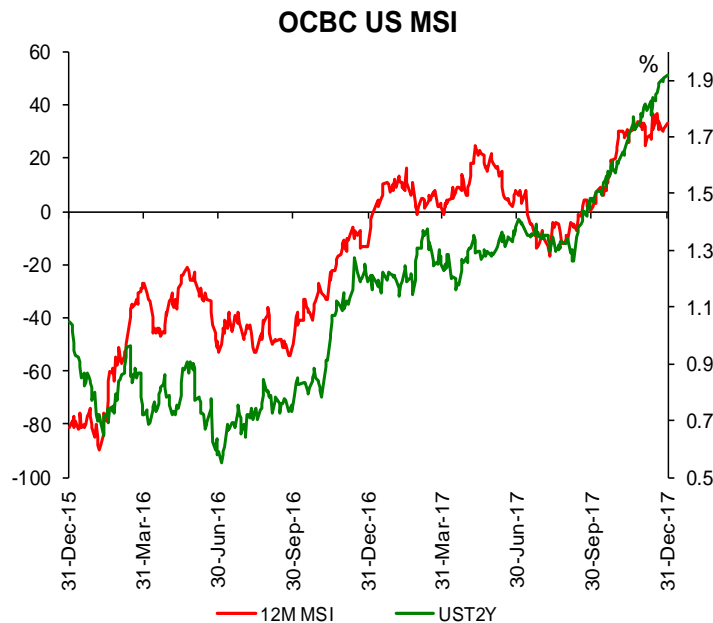
- Broad dollar underperformance may continue to moderate into 1Q 18, especially if rate differentials continue to prove supportive and generate intrinsic lift for the greenback.
- Front-end curve dynamics may be expected to dominate, with global central banks still ruminating about the absence of structural inflation.
- Expected structural dollar vulnerability may eventually manifest if aggregate differentials finally turn against the greenback.



Source: OCBC Bank, Bloomberg

# Outside the dollar sphere

- With the Fed's normalization well underway, expect the front-end to remain responsive to macroeconomic fluctuations.
- Barring further disappointments from the Fed/Trump, classic counter-cyclical characteristics of the USD may continue to retain traction – synchronized global growth undermines the USD.

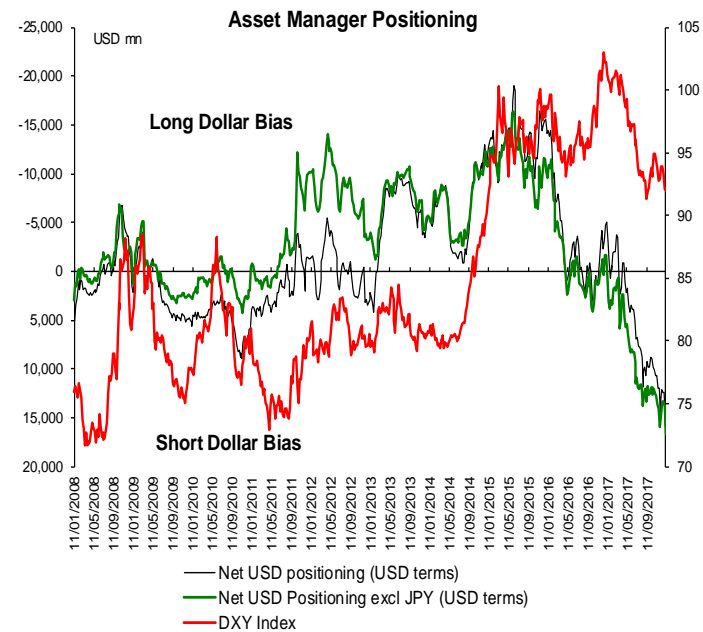
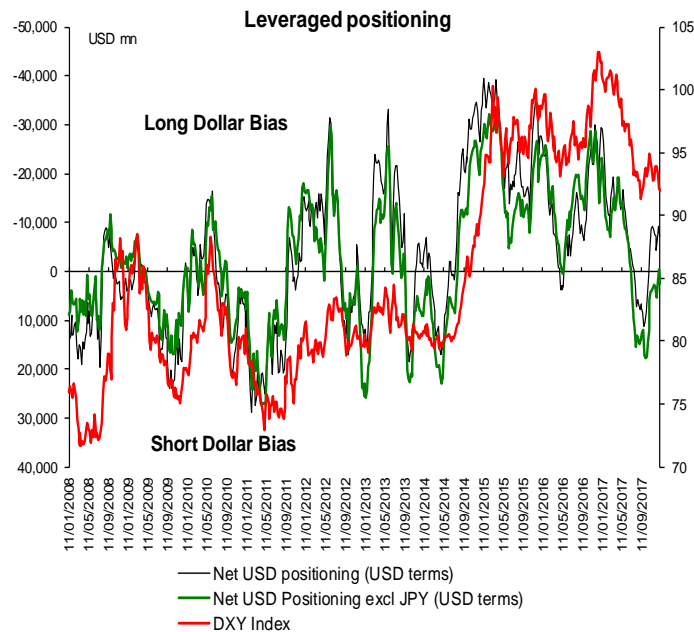


Source: OCBC Bank, Bloomberg




# Positioning

- Net of JPY positioning, leveraged accounts remain essentially neutral on the broad dollar in aggregate.
- Demonstrating the inherent perceived vulnerability for the JPY, leveraged shorts on the JPY remain significant, albeit at slightly elevated levels.
- Asset manager positioning had been consistently (and correctly) short the USD in aggregate in 2017 and into 2018.



Source: OCBC Bank, Bloomberg



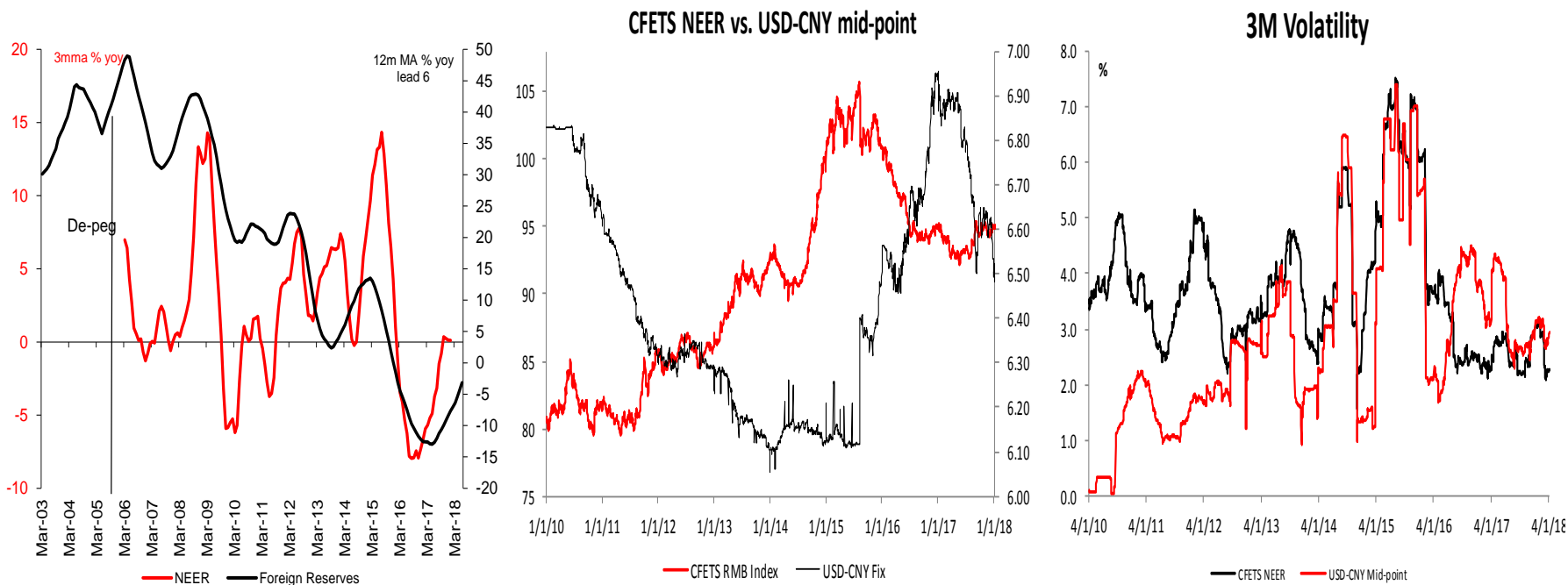


# Asian Outlook



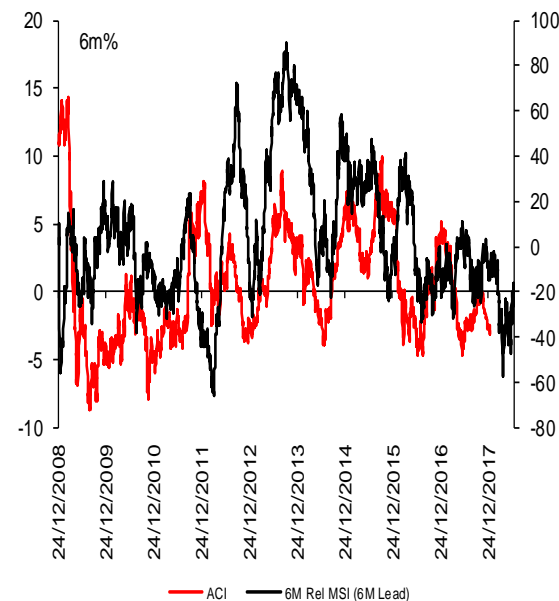
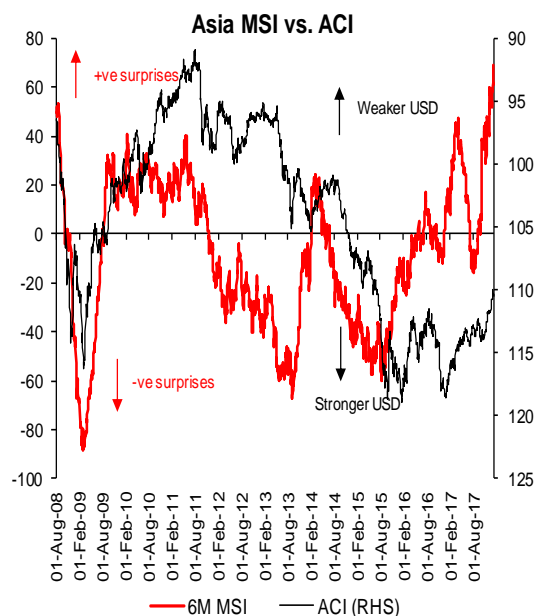
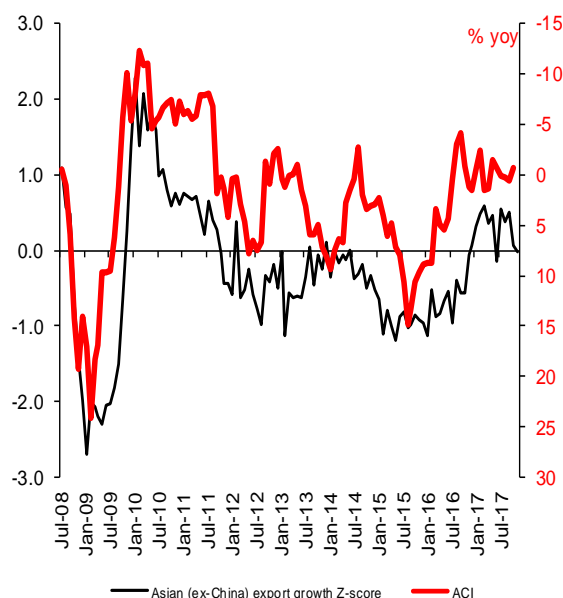
# China – Stability remains the operative phrase

- Despite a still constructive external payments picture, expect relative stability of the CFETS RMB Index.
- Domestically, de-leveraging and containment of financial sector risks remain policy objectives for 2018.



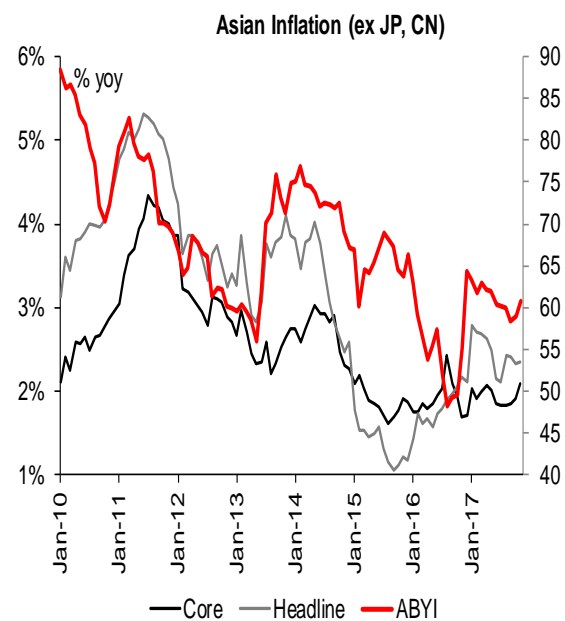
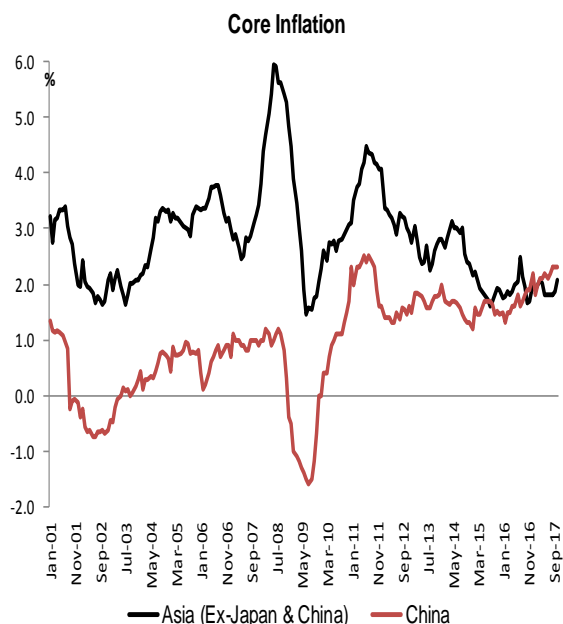
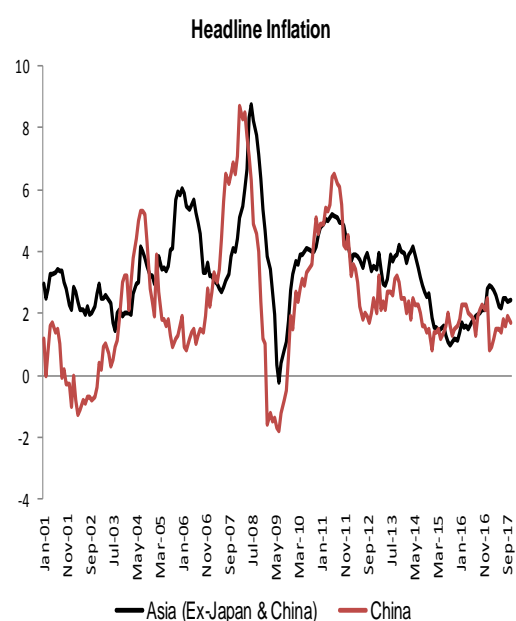
# Asian growth underpinnings

- Barring a deterioration of regional export performance, structural macro underpinnings remain supportive of regional currencies at this juncture.



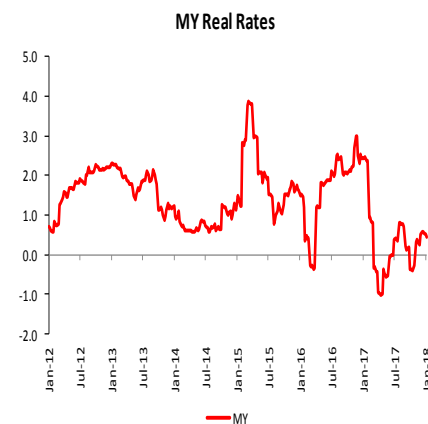
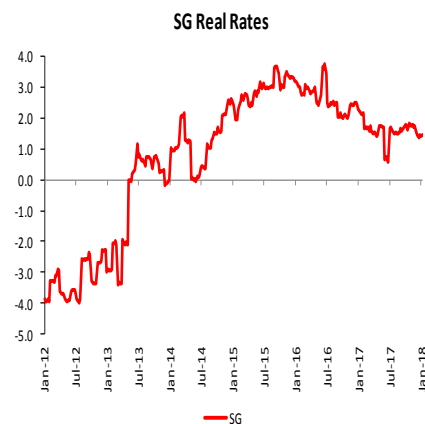
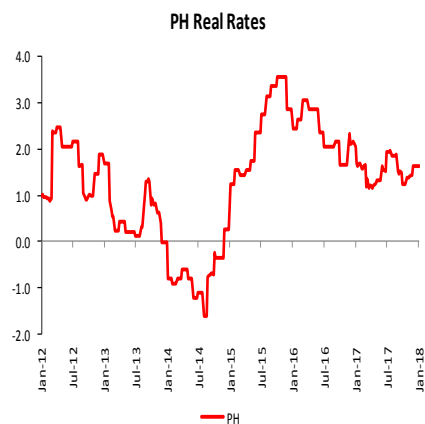
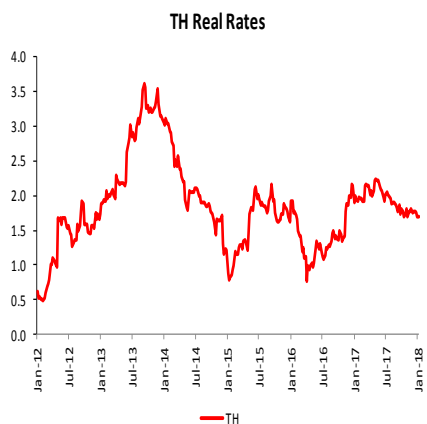
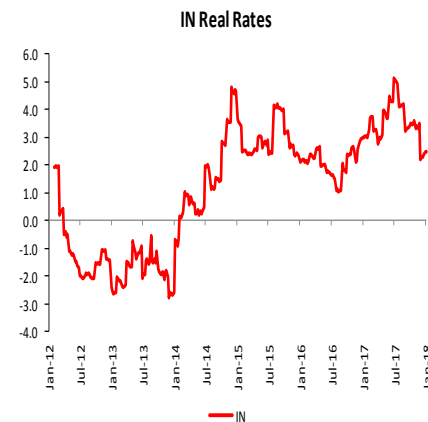
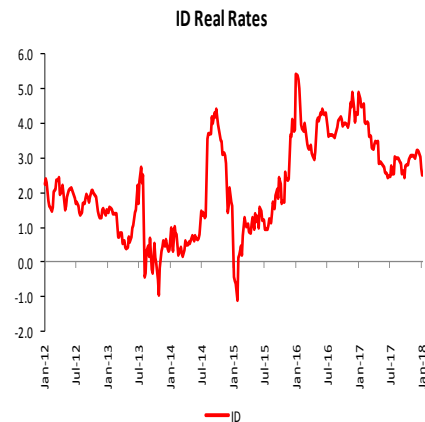
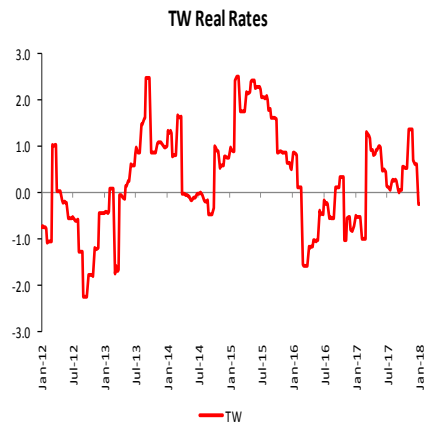
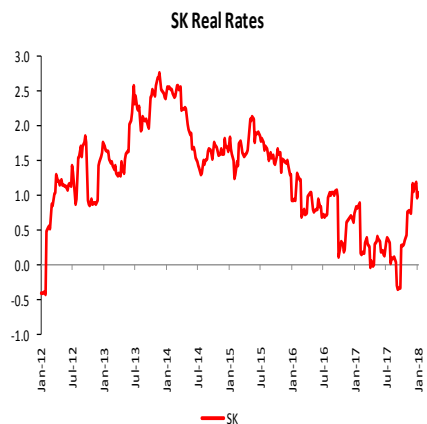
# Asian inflation outlook

- Global inflation has bottomed but this has not translated into uniform nor acute price pressures in Asia.
- Asian headline and core inflation developments are still heterogeneous (and even divergent) across the region.
- The ABYI (Asian 10y bond yield index) may thus have little urgency to rise abruptly in the near term.



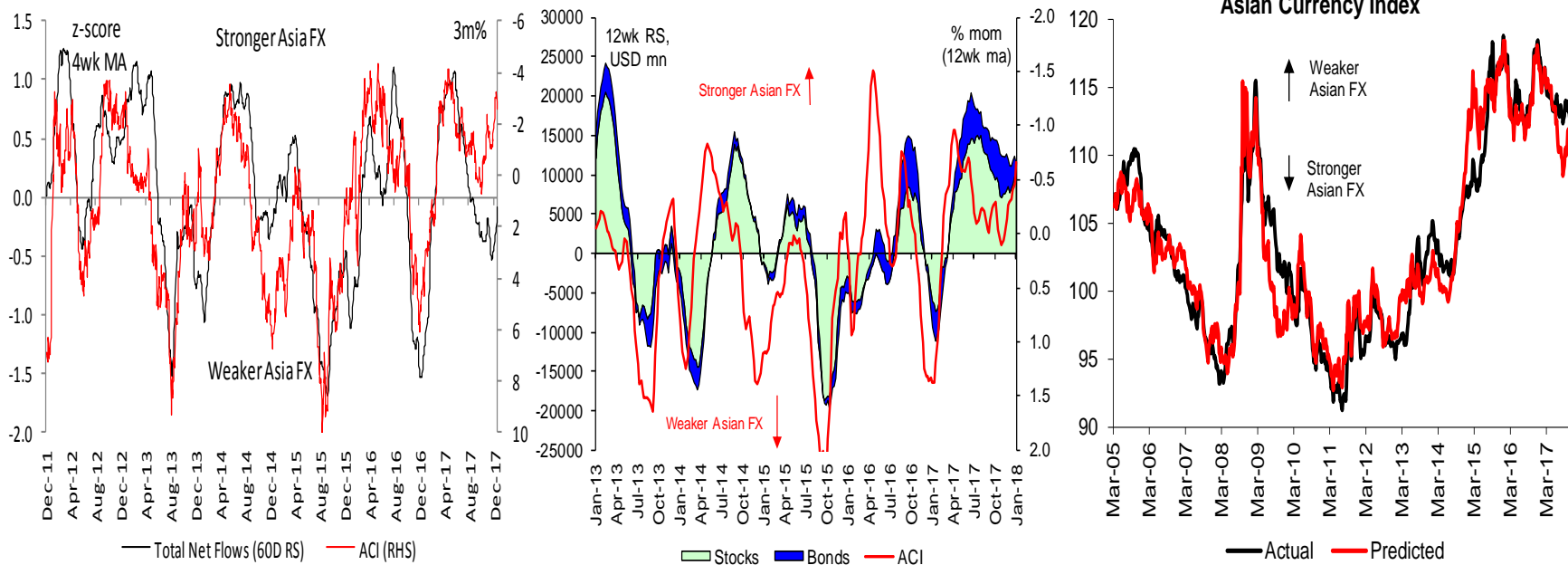
# Asian central banks may remain hesitant

- Asian central banks in aggregate may be in no hurry to tighten as yet, imparting little urgent impetus on term premiums. Note also potentially tighter monetary conditions via the exchange rate.



# Net inflows into Asia

- Actual bond and equity inflows began the year on a positive footing while implied capital flows are also attempting to bottom out after a tepid end to 2017.
- This may continue to provide a tail wind for Asian FX and also, on a selective basis, put a lid on bond yields.

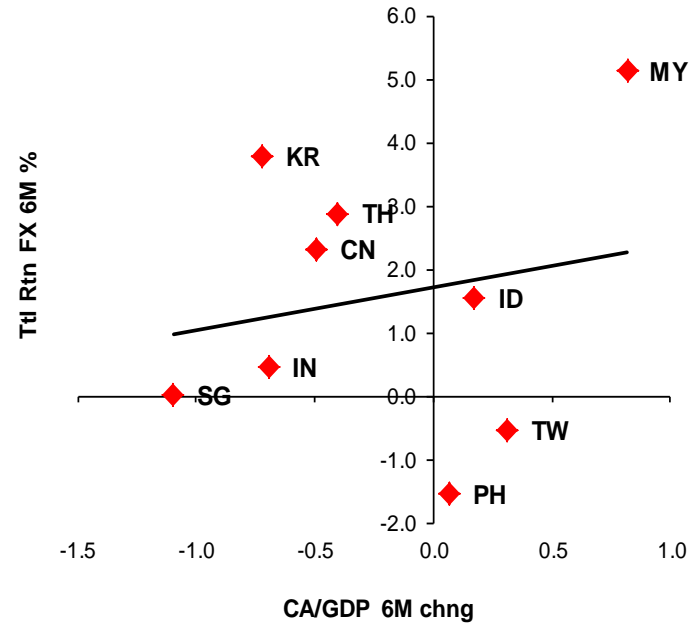
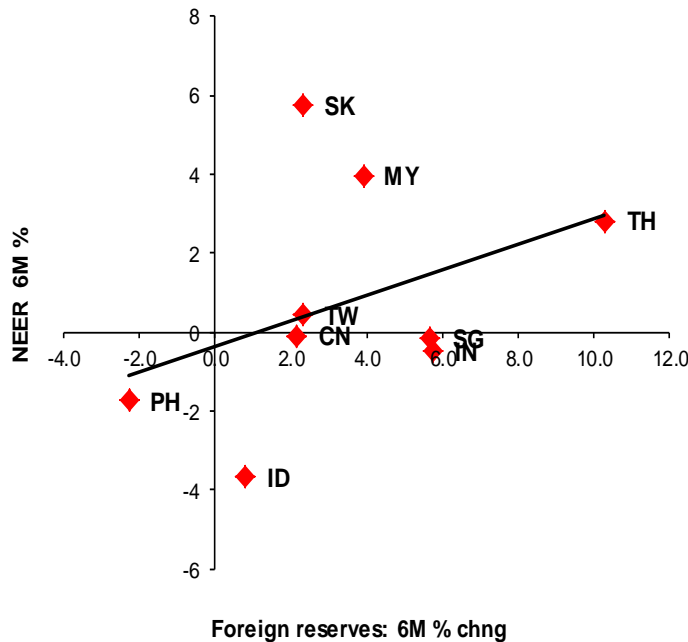


Source: OCBC Bank, Bloomberg



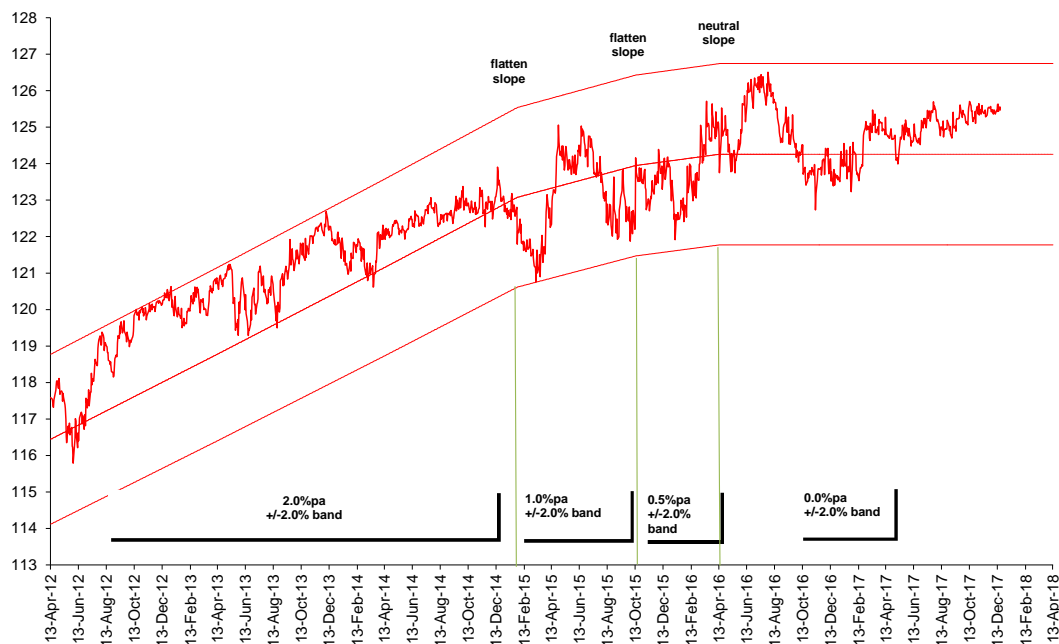
# External payments environment

- Overall, the external payments environment remains constructive thus far.
- Relative valuations persist while a maturing economic recovery may imply lessened scope for current account induced FX underpinnings.



# SGD Outlook

- Little urgency to resume a gradual and modest appreciation policy at this juncture given the growth/inflation outlook.
- Note that NEER resilience in 2017 had been on the back of significant USD underperformance.
- Continue to watch for a gradual and sustained drift of the SGD NEER above +1.00% in 1Q 18 as a potential indicator of a shift in policy intentions.



Source: OCBC Bank, Bloomberg

# Central tendency forecasts\*

	Spot	Mar-18	Jun-18	Sep-18	Dec-18
USD-JPY	112.28	112.00	113.00	114.00	115.00
EUR-USD	1.2058	1.2154	1.2303	1.2451	1.2600
GBP-USD	1.3607	1.3635	1.3757	1.3878	1.4000
AUD-USD	0.7822	0.7882	0.7955	0.8027	0.8100
NZD-USD	0.7098	0.7169	0.7239	0.7310	0.7380
USD-CAD	1.2511	1.2453	1.2336	1.2218	1.2100
USD-CHF	0.9716	0.9682	0.9622	0.9561	0.9500
USD-SGD	1.329	1.3283	1.3205	1.3128	1.3050
USD-CNY	6.5044	6.4715	6.4466	6.3881	6.3635
USD-THB	32.428	32.31	32.04	31.77	31.50
USD-IDR	13479	13491	13428	13364	13300
USD-MYR	4.0232	4.0074	3.9683	3.9291	3.8900
USD-KRW	1064.98	1056.80	1046.20	1035.60	1025.00
USD-TWD	29.571	29.550	29.367	29.183	29.000
USD-HKD	7.8174	7.8142	7.8195	7.8247	7.8300
USD-PHP	49.858	49.64	49.43	49.21	49.00
USD-INR	63.49	63.40	62.94	62.47	62.00
EUR-JPY	135.39	136.12	139.02	141.94	144.90
EUR-GBP	0.8862	0.8914	0.8943	0.8972	0.9000
EUR-CHF	1.1716	1.1768	1.1837	1.1904	1.1970
EUR-SGD	1.6025	1.6143	1.6245	1.6345	1.6443
GBP-SGD	1.8084	1.8110	1.8165	1.8219	1.8270
AUD-SGD	1.0395	1.0469	1.0504	1.0538	1.0571
NZD-SGD	0.9433	0.9522	0.9559	0.9596	0.9631
CHF-SGD	1.3678	1.3718	1.3724	1.3731	1.3737
JPY-SG	1.1836	1.1859	1.1686	1.1515	1.1348
SGD-MYR	3.0272	3.0170	3.0051	2.9930	2.9808
SGD-CNY	4.8942	4.8722	4.8819	4.8662	4.8763

\*as at 03 January 2018



# Disclaimer

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