

Friday, September 07, 2018

FX Themes/Strategy/Trading Ideas

- The USD ended mildly unchanged against the majors, same for the JPY, with the pair slipping below 111.00 to a low of 110.51 following a report that Trump would target Japan next.
- Elsewhere, the USD-CAD tripped slightly lower after a Bank of Canada official indicated that the Bank may be forced to hike rates if NAFTA collapses.
- Global equities (EM and tech) continued to bleed on Thursday (with UST's rallying), which partially fueled sustained interest towards the JPY (and the CHF). On the risk appetite front, equity weakness and underlying investor nervousness belie the relative calm of FX markets on Thursday, with the **FXSI (FX Sentiment Index)** still edging higher within Risk Neutral territory.
- Meanwhile, continue to watch for any headlines emanating from the US-Sino trade front (section 301 public comment period ends at 0400 GMT) as well as news flow surrounding ongoing NAFTA talks between US and Canada.
- Going ahead, a near term risk to the positive gradient of the broad dollar is if Fed-speak and forward guidance wavers (either on the back of global market volatility or US curve dynamics). At this juncture, prospects for this change of heart by the Fed does not seem imminent (see comments from the Fed's Williams and Evans overnight), and supportive NFP numbers permitting, the broad dollar may continue to vector north.
- Intra-day, favor the JPY, including on the crosses if risk appetite continues to curdle. In this environment expect also potential vulnerability on the part of the cyclicals (i.e., antipodeans and the CAD). On the data front, look to the US NFP numbers at 1230 GMT (mkts: +191k).

Asian FX

- The EM/Asian sphere is expected to remain in the hot seat into the end of the week, with volatility having already afflicted FX, bonds, and equities. Note that incoming data is finally reflecting bond outflows for India, net equity outflows for Malaysia, and net equity bond and equity outflows for Indonesia. Going ahead, watch also for any further dilution of the crude complex, especially if this begins to be interpreted as slower global/EM growth prospects.
- As hazarded in yesterday's report, the PHP complex finally caved on Thursday. On a brighter note, the relative stability of the renminbi complex (as well as significantly higher implied costs for short term shorts in the CNH and selected

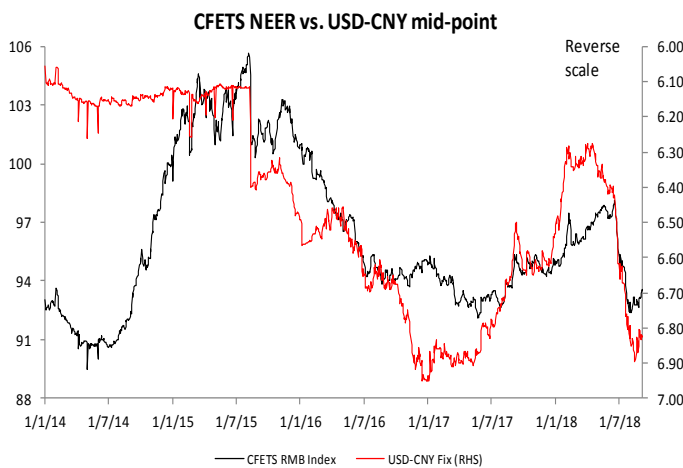
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Asians) may provide an anchor of sorts for the region at large.

- Despite prevailing arguments pointing to relative differences across the region and how Asia is fundamentally more robust compared to previous episodes of turmoil, the recalibration of EM valuations against a backdrop of apparent US economic resilience imply that the current bout of global volatility may not have run its course just yet.
- **SGD NEER:** The SGD NEER is slightly softer on the day at around +0.80% below its implied parity (1.3860) this morning with NEER-implied USD-SGD thresholds largely unchanged on the day. Time path for the pair is expected to remain flat to supported and expect investors to bounce any dips on any forays into 1.3730/50.
- **CFETS RMB Index:** The USD-CNY mid-point came in largely as expected at 6.8222 from 6.8217 on Thursday. This took the CFETS RMB Index lower to 93.52 from 93.54 yesterday.



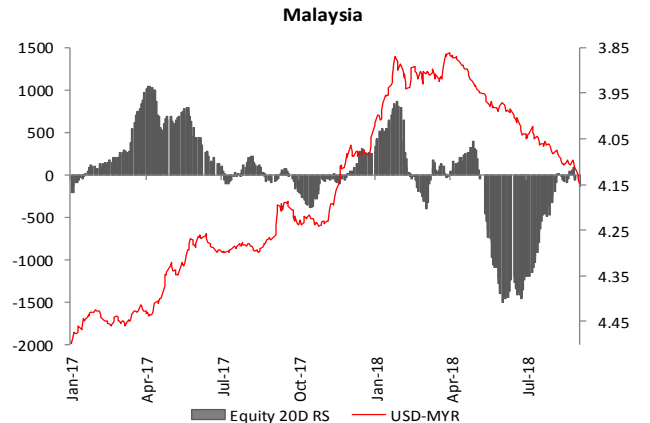
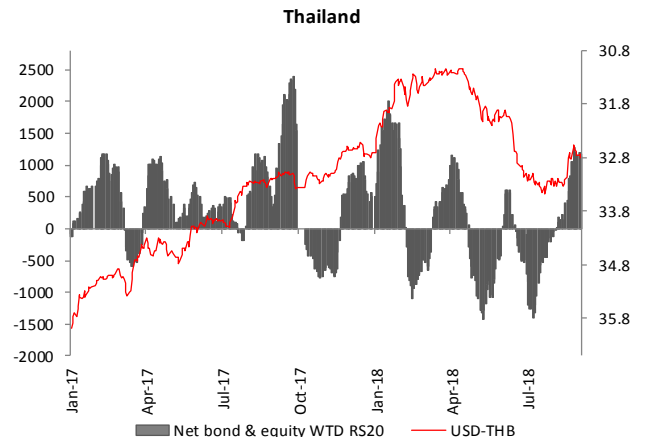
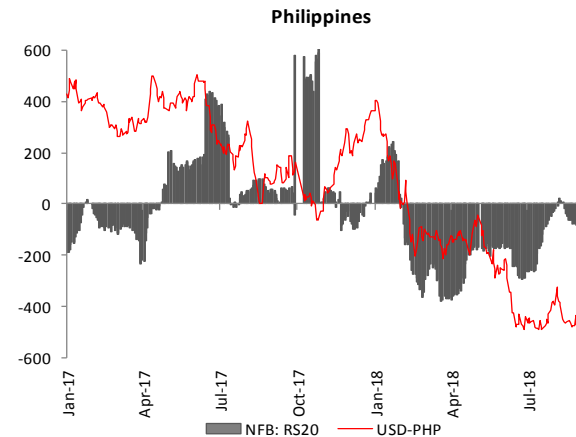
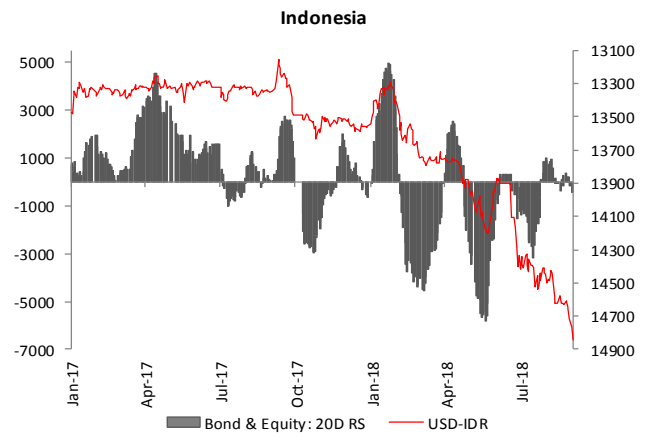
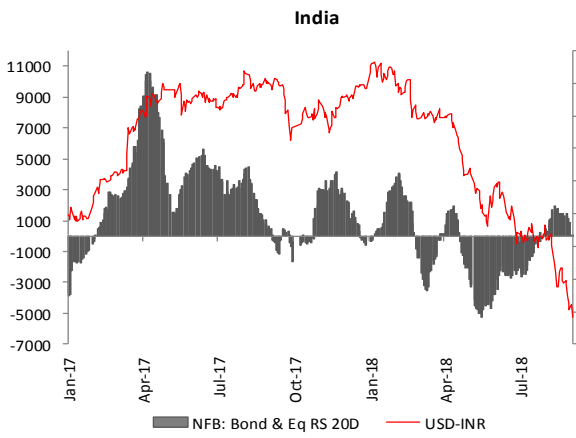
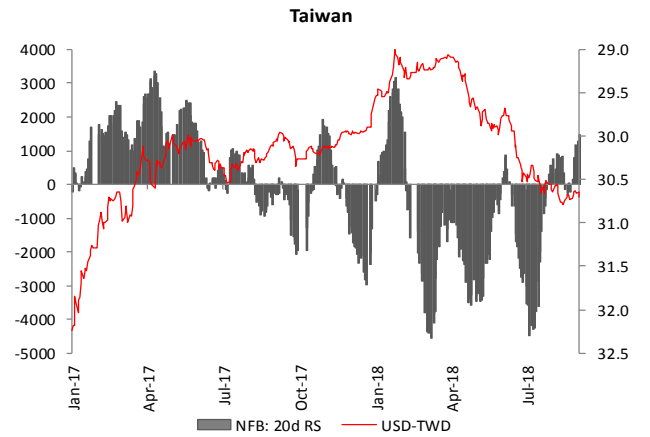
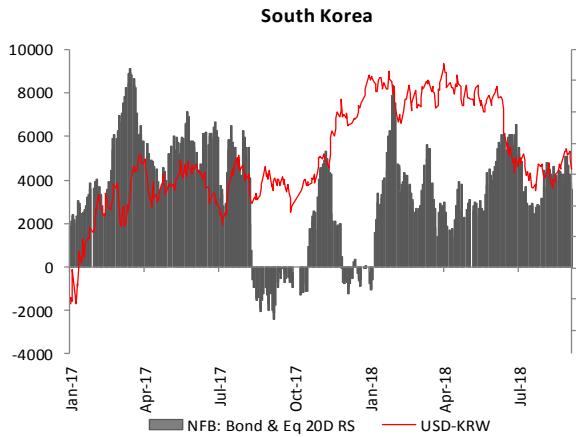
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔	Inability to break through the 6.8000 level may set the stage for a range-bound trading between 6.80-6.90; no signs of immediate progress in Sino-US trade talks with the public comment period for the proposal to implement tariffs on US\$200bn worth of imports to end on 5 Sep, new round of tariffs may hit by end-Sep
USD-KRW	↔	Expect to track RMB movements; weaker than expected unemployment print may douse rate hike expectations; BOK held rates unchanged with subsequent rhetoric sounding dovish again. Expectations for a rate hike by BOK before year-end may have to be trimmed
USD-TWD	↔	Expect to track RMB movements; flow dynamics still fluid with no clear directionality
USD-INR	↑	Net inflow momentum in a rolling 20D basis starting to moderate; hit by renewed EM jitters led by Argentina. USD-INR may continue to threaten 72.00, with govies still seen under downside pressure
USD-SGD	↔	Pause in broad USD momentum cap near term advances in the pair; another firm core inflation print to fuel speculation for a tightening move by the MAS in October, do not rule out this possibility yet. Near term, the SGD is not out of the woods yet, still demonstrating a responsiveness to the firmer dollar dynamic
USD-MYR	↑	BNM static in September; MYR remains vulnerable in line with its peers. Reported net equity outflows neutral. On a related note, expect SGD-MYR to continue to attempt to lift, especially with 3.00 now having been violated.
USD-IDR	↑	IDR may remain exposed to EM jitters due to C/A deficit concerns and a high percentage of foreign ownership in government bonds. Note expectations for BI to hike in September again (another inter-meeting hike would not be totally unexpected). NDF points, especially in the front-end are already reflecting elevated levels, potentially discouraging fresh short term USD longs, potentially pushing interest out towards the back-end in the forward/forwards if investors remain bearish on the IDR. On a related note, 10y govies may not relinquish the 8.50% handle convincingly just yet.
USD-THB	↔/↓	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support, top aide to Thai PM also signalled possible rate hike before year-end; inflow momentum still strong
USD-PHP	↑	BSP rate hiked 50 bps in August, as expected by some quarters; BSP retains a hawkish stance, ready to hike further if inflation remains out of control

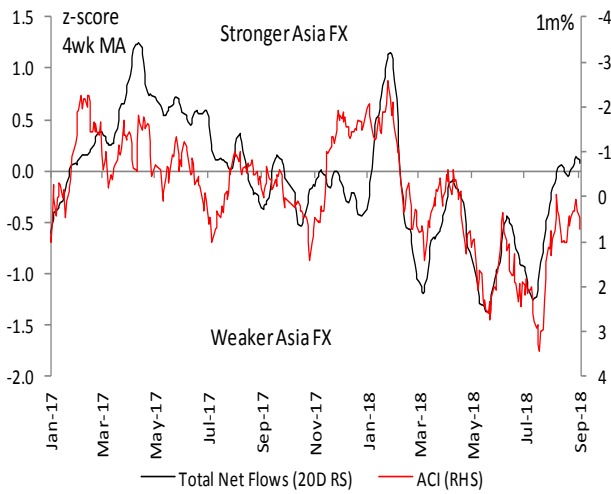
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



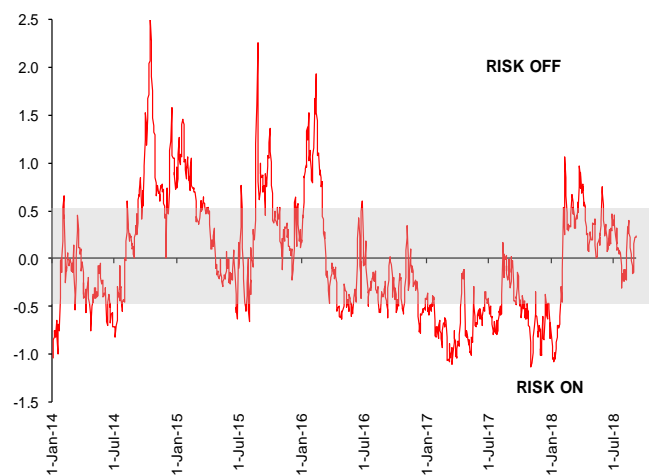
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.023	0.838	-0.876	-0.537	-0.706	-0.285	-0.736	0.406	0.883	0.728	-0.993
THB	0.855	0.363	0.679	-0.845	-0.371	-0.521	-0.293	-0.792	0.089	0.766	0.570	-0.875
CNY	0.838	-0.076	1.000	-0.756	-0.585	-0.789	-0.369	-0.668	0.548	0.817	0.870	-0.843
KRW	0.824	0.038	0.752	-0.895	-0.637	-0.694	-0.409	-0.733	0.422	0.674	0.567	-0.825
CHF	0.770	0.067	0.579	-0.870	-0.225	-0.471	-0.301	-0.774	-0.155	0.568	0.365	-0.782
CNH	0.728	0.048	0.870	-0.659	-0.370	-0.544	-0.105	-0.420	0.600	0.676	1.000	-0.732
SGD	0.661	0.101	0.701	-0.483	-0.623	-0.596	-0.044	-0.314	0.760	0.705	0.767	-0.636
TWD	0.555	-0.380	0.624	-0.338	-0.809	-0.737	-0.108	-0.346	0.704	0.490	0.444	-0.504
CAD	0.528	0.160	0.485	-0.488	-0.625	-0.497	-0.137	-0.323	0.593	0.573	0.497	-0.500
USGG10	0.023	1.000	-0.076	-0.015	0.253	0.286	0.373	-0.042	-0.113	0.031	0.048	-0.025
AUD	-0.122	0.023	-0.252	-0.122	0.382	0.213	-0.215	-0.245	-0.726	-0.288	-0.398	0.081
PHP	-0.145	-0.424	0.104	0.317	-0.582	-0.322	0.104	0.237	0.605	-0.042	0.091	0.179
MYR	-0.279	-0.151	-0.103	0.433	-0.461	-0.160	0.135	0.357	0.541	-0.103	-0.065	0.318
JPY	-0.285	0.373	-0.369	0.509	0.381	0.546	1.000	0.536	-0.129	-0.471	-0.105	0.358
IDR	-0.307	-0.122	-0.159	0.516	-0.360	-0.033	0.325	0.499	0.509	-0.134	-0.091	0.362
INR	-0.334	-0.173	-0.112	0.580	-0.393	-0.107	0.292	0.537	0.617	-0.114	-0.032	0.384
NZD	-0.610	-0.085	-0.532	0.440	0.518	0.487	0.067	0.245	-0.707	-0.668	-0.632	0.590
GBP	-0.918	-0.008	-0.697	0.857	0.504	0.686	0.255	0.790	-0.218	-0.733	-0.538	0.901
EUR	-0.993	-0.025	-0.843	0.896	0.522	0.708	0.358	0.768	-0.380	-0.892	-0.732	1.000

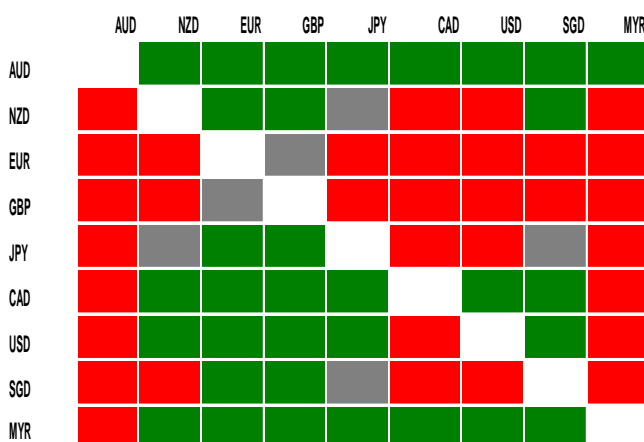
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1615	1.1619	1.1700	1.1746
GBP-USD	1.2674	1.2900	1.2924	1.3000	1.3007
AUD-USD	0.7142	0.7145	0.7171	0.7200	0.7347
NZD-USD	0.6527	0.6530	0.6574	0.6600	0.6713
USD-CAD	1.3090	1.3100	1.3130	1.3200	1.3223
USD-JPY	110.00	110.13	110.58	111.00	111.23
USD-SGD	1.3670	1.3700	1.3754	1.3800	1.3814
EUR-SGD	1.5877	1.5900	1.5981	1.5997	1.6000
JPY-SGD	1.2289	1.2400	1.2438	1.2488	1.2500
GBP-SGD	1.7455	1.7700	1.7776	1.7780	1.7800
AUD-SGD	0.9839	0.9843	0.9864	0.9900	1.0043
Gold	1174.82	1200.00	1202.60	1216.06	1217.67
Silver	13.11	13.70	14.10	15.23	15.27
Crude	65.32	67.70	67.76	67.80	69.29

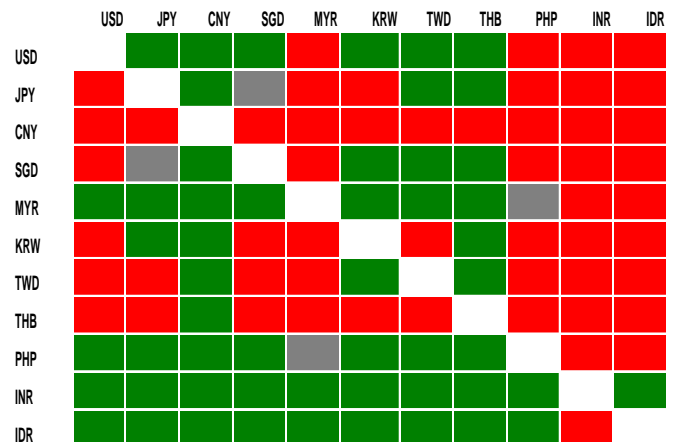
Source: OCBC Bank

G10 FX Heat Map



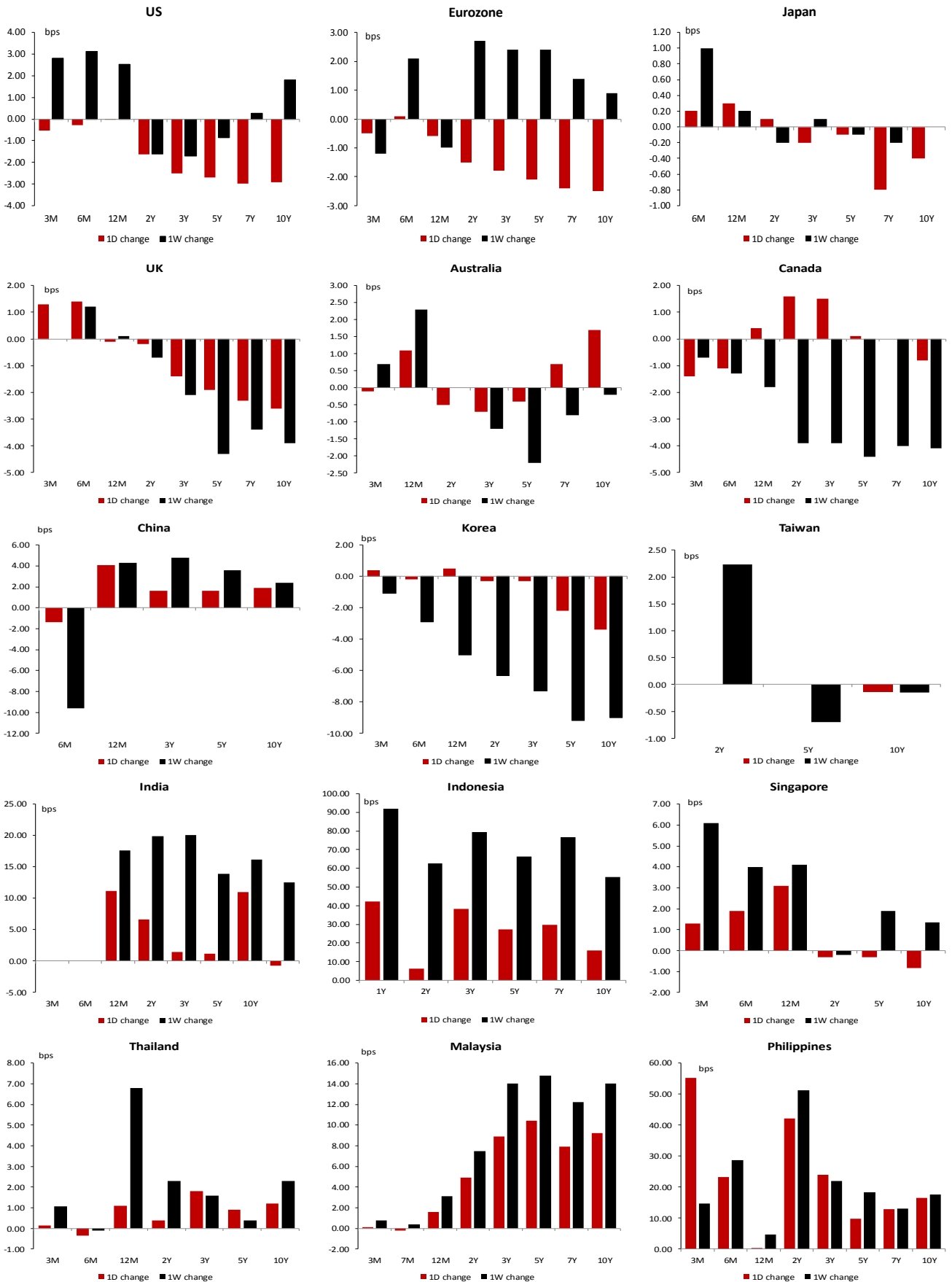
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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