

Tuesday, September 11, 2018

FX Themes/Strategy/Trading Ideas

- The broad dollar wavered on Monday with the EUR and GBP finding support from positive Brexit-related news flow and firmer-than-expected UK GDP. Meanwhile, the JPY and CHF underperformed across the board as perceived risk aversion was taken down a notch.
- Risk appetite may have been given a positive sheen on positive headlines from Italy and the UK, and firmer EU equities. Nevertheless, with EM equities still in the red, we caution that our **FXSI (FX Sentiment Index)** continued to firm for the 8th consecutive session on Monday. Further degradation in global sentiment from this juncture may see the Index drift into Risk-Off territory in the coming sessions.
- **In the near term, we look to a continued polarization within G10 space.** While the EUR-USD may remain trapped in a holding pattern (no fireworks expected from the ECB this week), an opportunistic trade may be to be long the GBP-USD on the back of supportive Brexit-related headlines and odds of slightly hawkish BOE this week.
- On the flip side, we remain bearish on the AUD-USD (with model implied valuations for the pair remaining laden) while we are negative on the USD-JPY as a hedge against another outburst of risk aversion. Elsewhere, we'd continue to bounce dips in the USD-CAD given niggling NAFTA concerns and structural USD underpinnings.
- With the risk of further global market volatility overshadowing structural dollar support, we think USD-JPY may potentially target the downside in the near term. From a spot ref of 111.05 on Monday, we initiate a tactical short **USD-JPY** targeting 109.25, with a stop placed at 111.95.
- In terms of Fed-speak, note that Bostic continued to lean cautious in his latest comments, although that did little to quell Fed rate hike expectations. Today, watch for comments from the ECB's Nouy (1200 GMT). On the data front, watch for UK labor prints (0830 GMT), German ZEW survey (0900 GMT) and US wholesale inventories (1400 GMT).

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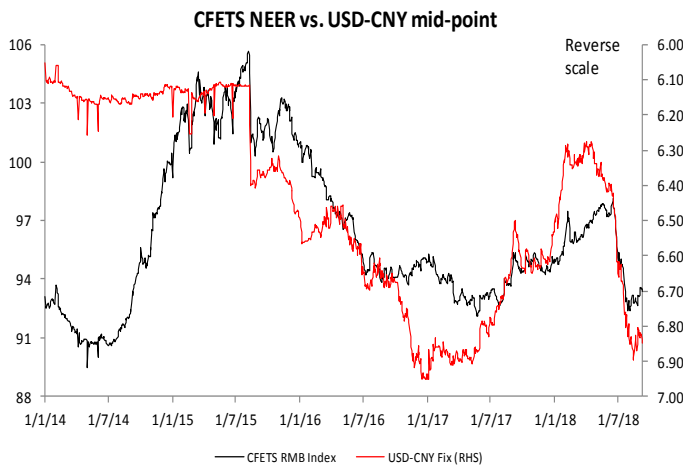
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Asian FX

- In Asia, actual implied net portfolio inflows have fallen by the way side, with South Asian central banks still in a pitch battle with the markets. At this juncture, we continue see accelerated build-up in outflow momentum for Indonesia, India and the Philippines. Inflow momentum into South Korea is also showing some signs of moderation. Unlike the polarization in G10, we expect some alignment of positioning within Asia.
- **While the IDR, INR, and PHP were the first to fall amidst the initial global EM uncertainty, we fear that relative macro fundamentals across the region may be suspended in the interim if EM uncertainty continues to deepen.** Note that net bond inflows for South Korea for example have also collapsed in recent sessions. In line with this chain of reasoning, we look for further upside reactions in the USD-KRW and USD-SGD.
- **SGD NEER:** The SGD NEER firmed this morning, coming in at around +0.78% above its implied parity (1.3896) this morning with NEER-implied USD-SGD thresholds inching higher.
- **CFETS RMB Index:** The USD-CNY mid-point came in higher, as largely expected, at 6.8488 from 6.8389 on Monday. This took the CFETS RMB Index lower again to 93.38 from 93.49 yesterday. With the USD-CNY spot above the 6.8500 handle again, watch for another potential test of the 6.9000 handle this week.



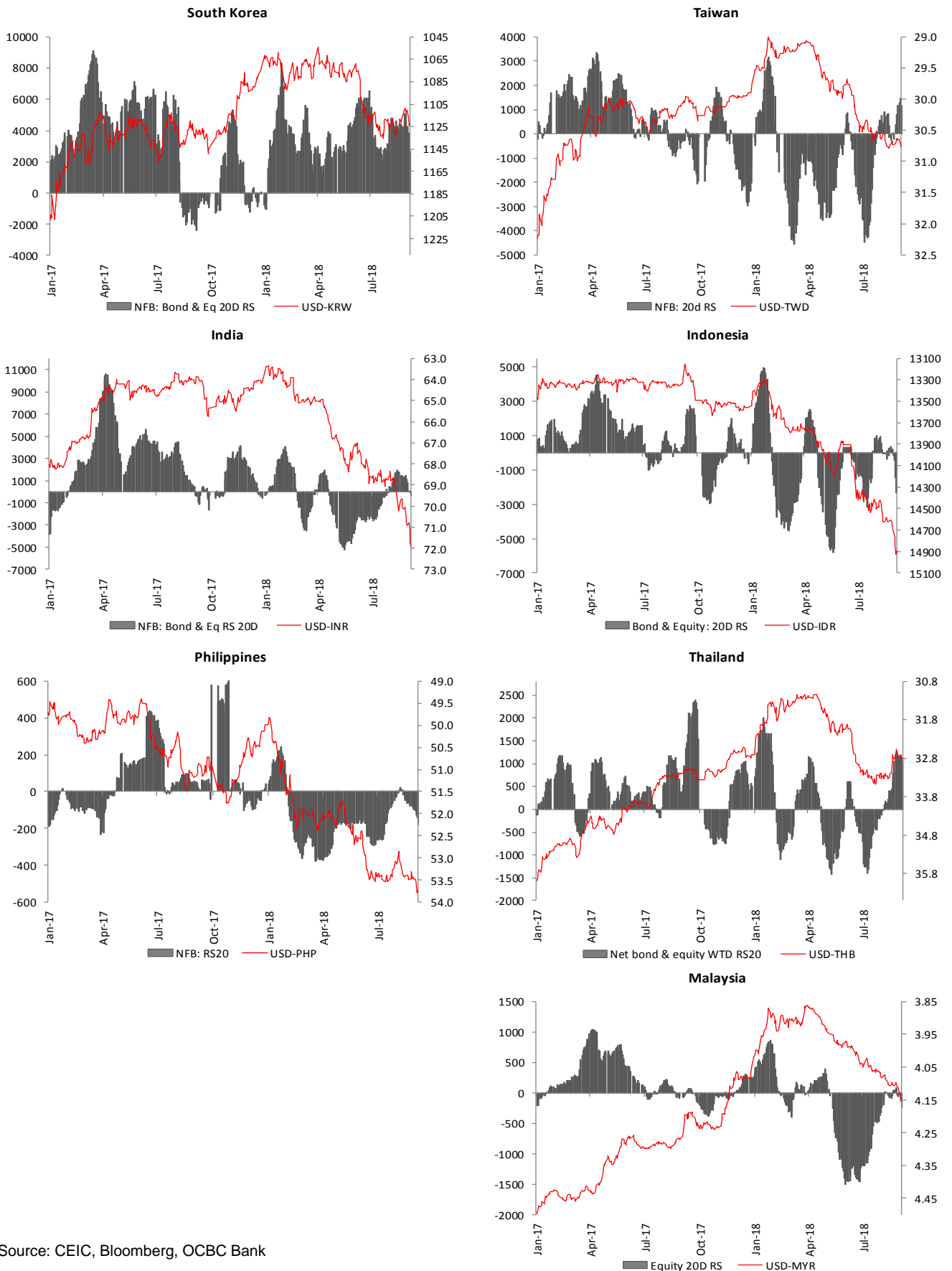
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔	Some stability in FX is still expected in the near term but note the heightened realized volatility of the fixings all through the summer coupled with the slightly uncomfortable firming of the CFETS RMB Index. Firm CPI readings may be expected to keep the yield curve supported.
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	↑	Stress on the INR and govies may be expected to persist. Current account concerns for India plus the larger EM overhang may continue to see outsized vulnerability of the INR relative to the neutral net portfolio flow environment.
USD-SGD	↑	Pause in broad USD momentum cap near term advances in the pair; balance of considerations may now tilt towards external uncertainties in the MAS's October decision; 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 on the back of C/A deficit concerns and foreign reserve slippage, as well as exposure to foreign ownership of local paper.. 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. Bond inflows remain significant, yielding a buffer for FX and govies.
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. Already heightened implied costs may deter fresh short term PHP bears in the NDF outright in the absence of fresh EM distress.

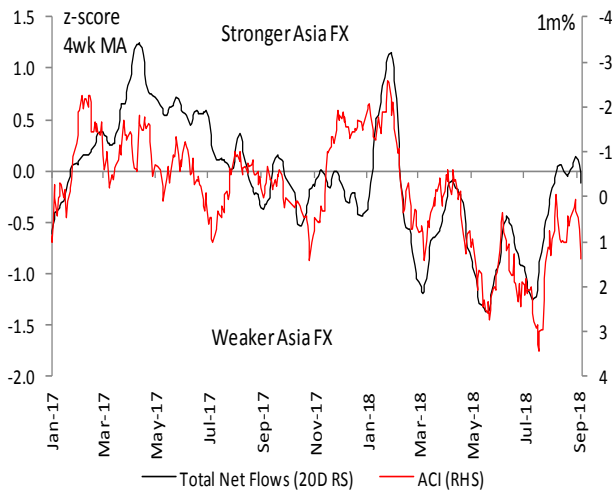
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



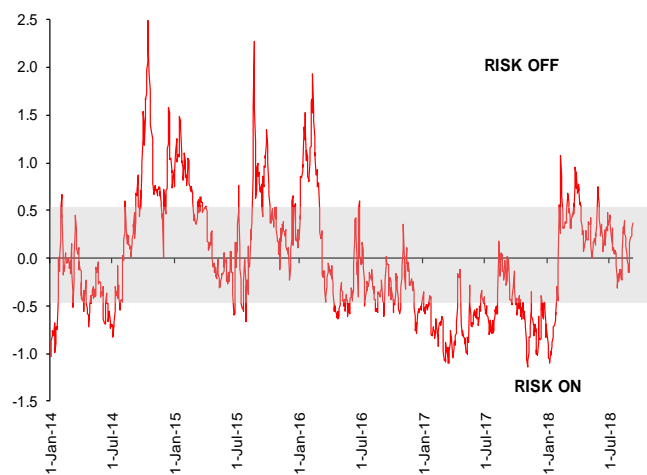
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.010	0.882	-0.898	-0.480	-0.772	-0.355	-0.784	0.332	0.856	0.679	-0.992
THB	0.945	0.072	0.862	-0.827	-0.560	-0.800	-0.324	-0.807	0.305	0.835	0.631	-0.947
CNY	0.882	0.049	1.000	-0.860	-0.477	-0.781	-0.361	-0.751	0.462	0.748	0.878	-0.899
CHF	0.825	-0.355	0.702	-0.835	-0.251	-0.657	-0.477	-0.766	-0.123	0.662	0.344	-0.816
TWD	0.732	0.246	0.683	-0.712	-0.769	-0.713	-0.089	-0.730	0.513	0.421	0.546	-0.714
KRW	0.729	0.292	0.774	-0.871	-0.785	-0.766	-0.295	-0.786	0.524	0.455	0.605	-0.753
CNH	0.679	0.265	0.878	-0.677	-0.411	-0.547	-0.089	-0.466	0.635	0.544	1.000	-0.700
SGD	0.550	0.652	0.644	-0.488	-0.706	-0.516	0.090	-0.404	0.787	0.422	0.770	-0.561
CAD	0.440	0.503	0.462	-0.423	-0.762	-0.503	0.000	-0.364	0.723	0.335	0.529	-0.434
USGG10	-0.010	1.000	0.049	0.135	-0.352	0.038	0.440	0.049	0.639	-0.108	0.265	-0.004
AUD	-0.017	-0.797	-0.138	-0.063	0.489	0.027	-0.377	-0.067	-0.699	0.058	-0.437	0.034
PHP	-0.249	0.542	-0.089	0.184	-0.638	-0.012	0.156	0.058	0.539	-0.452	0.102	0.207
MYR	-0.300	0.536	-0.290	0.352	-0.374	0.078	0.314	0.294	0.462	-0.272	-0.056	0.307
INR	-0.352	0.684	-0.198	0.390	-0.456	0.110	0.318	0.270	0.593	-0.388	0.106	0.331
JPY	-0.355	0.440	-0.361	0.531	0.296	0.573	1.000	0.571	-0.071	-0.461	-0.089	0.423
IDR	-0.373	0.566	-0.325	0.436	-0.313	0.209	0.384	0.389	0.406	-0.347	-0.099	0.384
NZD	-0.435	-0.700	-0.504	0.397	0.714	0.418	-0.076	0.318	-0.800	-0.341	-0.628	0.451
GBP	-0.856	0.315	-0.677	0.812	0.275	0.715	0.342	0.678	-0.067	-0.781	-0.362	0.817
EUR	-0.992	-0.004	-0.899	0.912	0.512	0.793	0.423	0.810	-0.359	-0.854	-0.700	1.000

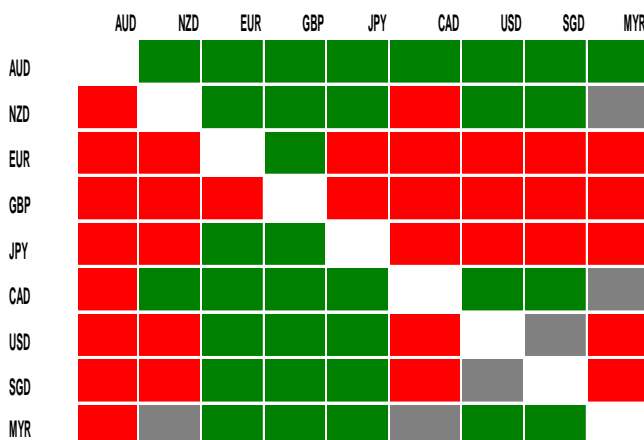
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1384	1.1500	1.1585	1.1600	1.1612
GBP-USD	1.3000	1.3002	1.3027	1.3078	1.3100
AUD-USD	0.7092	0.7100	0.7107	0.7200	0.7336
NZD-USD	0.6501	0.6513	0.6522	0.6600	0.6704
USD-CAD	1.3090	1.3100	1.3160	1.3200	1.3226
USD-JPY	111.00	111.26	111.41	111.79	112.00
USD-SGD	1.3675	1.3700	1.3792	1.3800	1.3819
EUR-SGD	1.5879	1.5900	1.5977	1.5997	1.6000
JPY-SGD	1.2291	1.2300	1.2379	1.2400	1.2481
GBP-SGD	1.7900	1.7962	1.7966	1.7987	1.8000
AUD-SGD	0.9787	0.9800	0.9802	0.9900	1.0031
Gold	1161.40	1175.41	1193.60	1200.00	1213.29
Silver	13.96	14.10	14.11	14.20	15.12
Crude	65.42	67.60	67.61	67.70	69.04

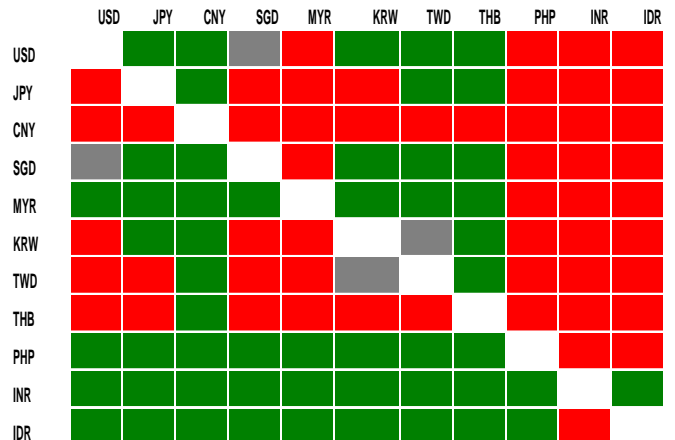
Source: OCBC Bank

G10 FX Heat Map



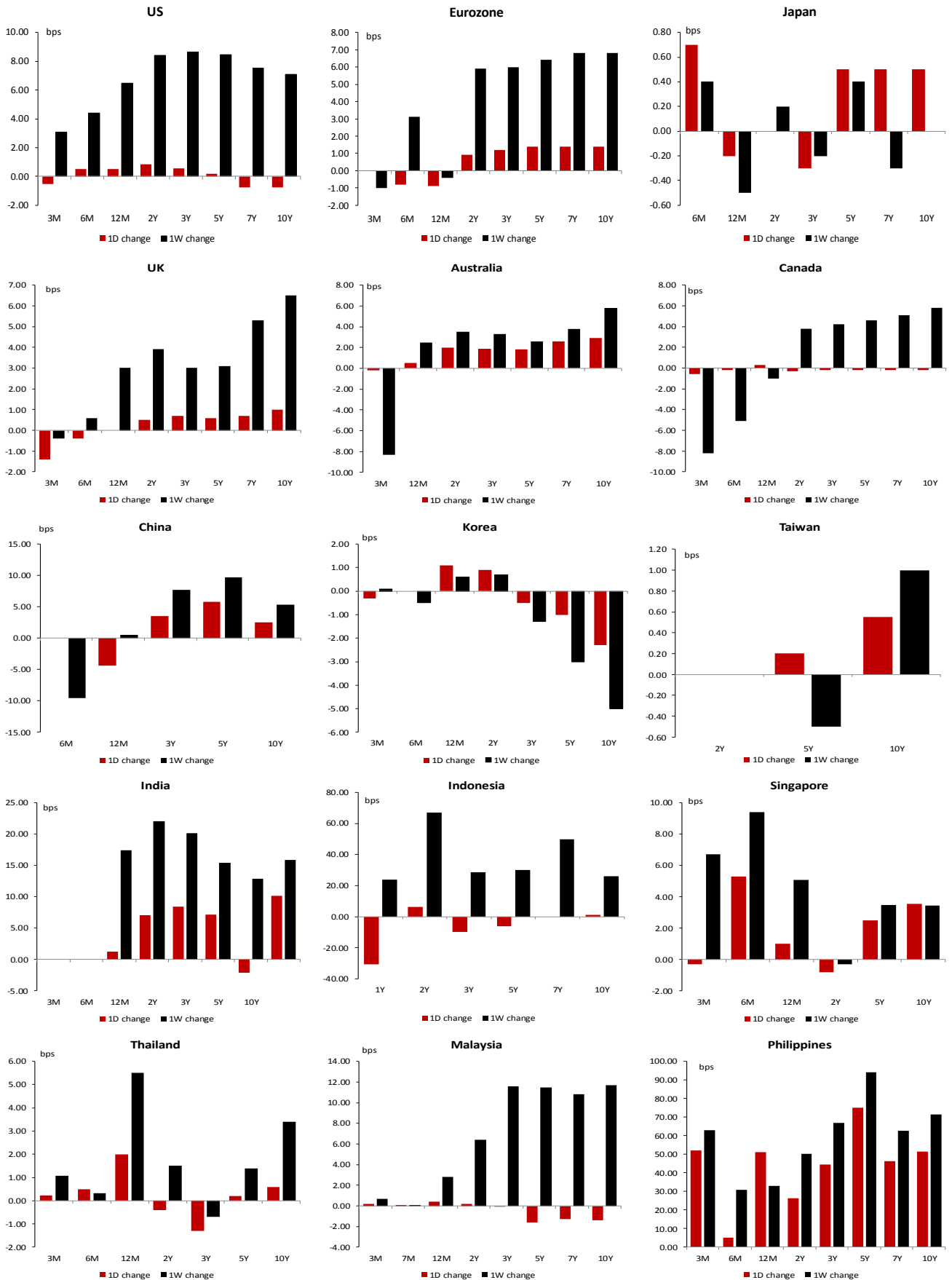
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Recommendations

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale	
TACTICAL							
1	04-Sep-18	S	AUD-USD	0.7190	0.7020 0.7275	Vulnerability to contagion, static RBA	
2	07-Sep-18	B	USD-CAD	1.3137	1.3365 1.3020	USD resilience, NAFTA uncertainty	
3	10-Sep-18	S	USD-JPY	111.05	109.25 111.25	Risk of further global market uncertainty	
STRUCTURAL							
-	-	-	-	-	-	-	
RECENTLY CLOSED TRADE IDEAS							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
-	-	-	-	-	-	-	-
* realized							

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