

Wednesday, September 12, 2018

## FX Themes/Strategy/Trading Ideas

- Despite firmer US (and G3) yields, the dollar ended a touch softer overall on Tuesday amid stabilizing global equities (positive US stocks and EM equities attempting to stabilize) but still simmering US-Sino trade tensions (see WTO-related headlines regarding China's intent to seek authorization to impose trade sanctions). The CAD in particular was bolstered after President Trump noted that talks were "coming along very well".
- For today, pending the performance of EM asset markets (note BRL continued to melt on Tuesday), expect investors to remain focused on US-China trade tensions, Brexit news flow and NAFTA headlines. With the expected tariff announcement from Trump still not forthcoming, and the EM space teetering but not explicitly boiling over, the overall risk sentiments may be in stasis for now. Our **FXSI (FX Sentiment Index)** continued to populate the zone just below the Risk-Off territory. Nevertheless, we think the balance is still tilted towards further degradation of risk sentiments in the coming sessions.
- **In a nutshell, expect some range trading conditions pending further price discovery and ahead of the BOE/ECB and US CPI on Thursday, as markets lack fresh impetus to deviate significantly from current levels. To this end, expect the EUR-USD to continue to ply recent range. Note, however, that the implied vols for the antipodeans (AUD in particular) remain elevated, demonstrating ongoing nervousness.**
- We look to a tactical long GBP-USD ahead of the BOE MPC Thursday and potential short term positive traction (however short-lived) from Brexit-related news flow. From a **GBP-USD** spot ref of 1.3056 on Tuesday, we look to a 1.3325 objective and a stop at 1.2920.
- On the calendar today, watch for Eurozone industrial production (0900 GMT), US PPI (1230 GMT) and the release of the Fed's Beige Book (1800 GMT). Comments from Bullard (1340 GMT) and Brainard (1645 GMT) also on tap.

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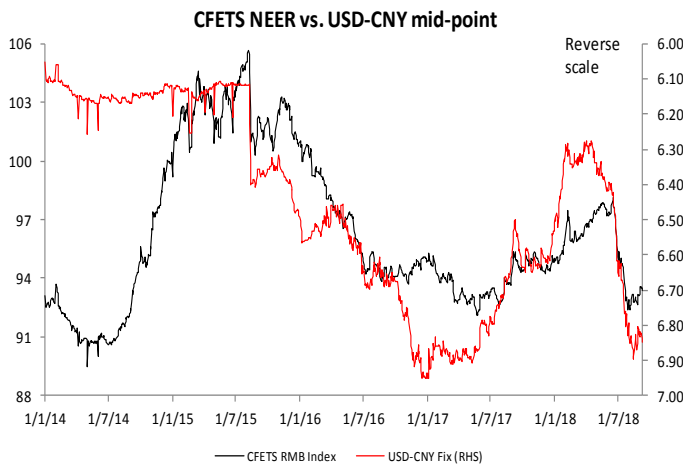
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### Asian FX

- USD-Asia may start the day on a heavy tone and Asian markets may look to external cues intra-day. Expect some degree of sentiment positivity if tech stock optimism from overnight markets persists into the Asian morning. Asian govie curves may for the most part also attempt to shadow firmer G3 curves from overnight, although domestic factors may compete for attention. On this front, the jump in August unemployment rate in South Korea may continue to weigh on yields.
- At this juncture, the improvement in risk appetite levels may not be wholly encompassing as yet. While the THB remains a standout in terms of very supportive bond inflows (outpacing equity outflows) and there is some indication of an attempt at stabilization in decaying net portfolio flows for South Korea, net outflows across the region (India, Indonesia, Philippines) remain palpable at this stage. Meanwhile, the INR and Indian govies may remain under downside pressure given the jump in crude overnight.
- **SGD NEER:** The SGD NEER firmed again this morning, coming in at around +0.95% above its implied parity (1.3900) 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 6.8546 from 6.8488 on Tuesday. This took the CFETS RMB Index lower again to 93.21 from 93.38 yesterday.



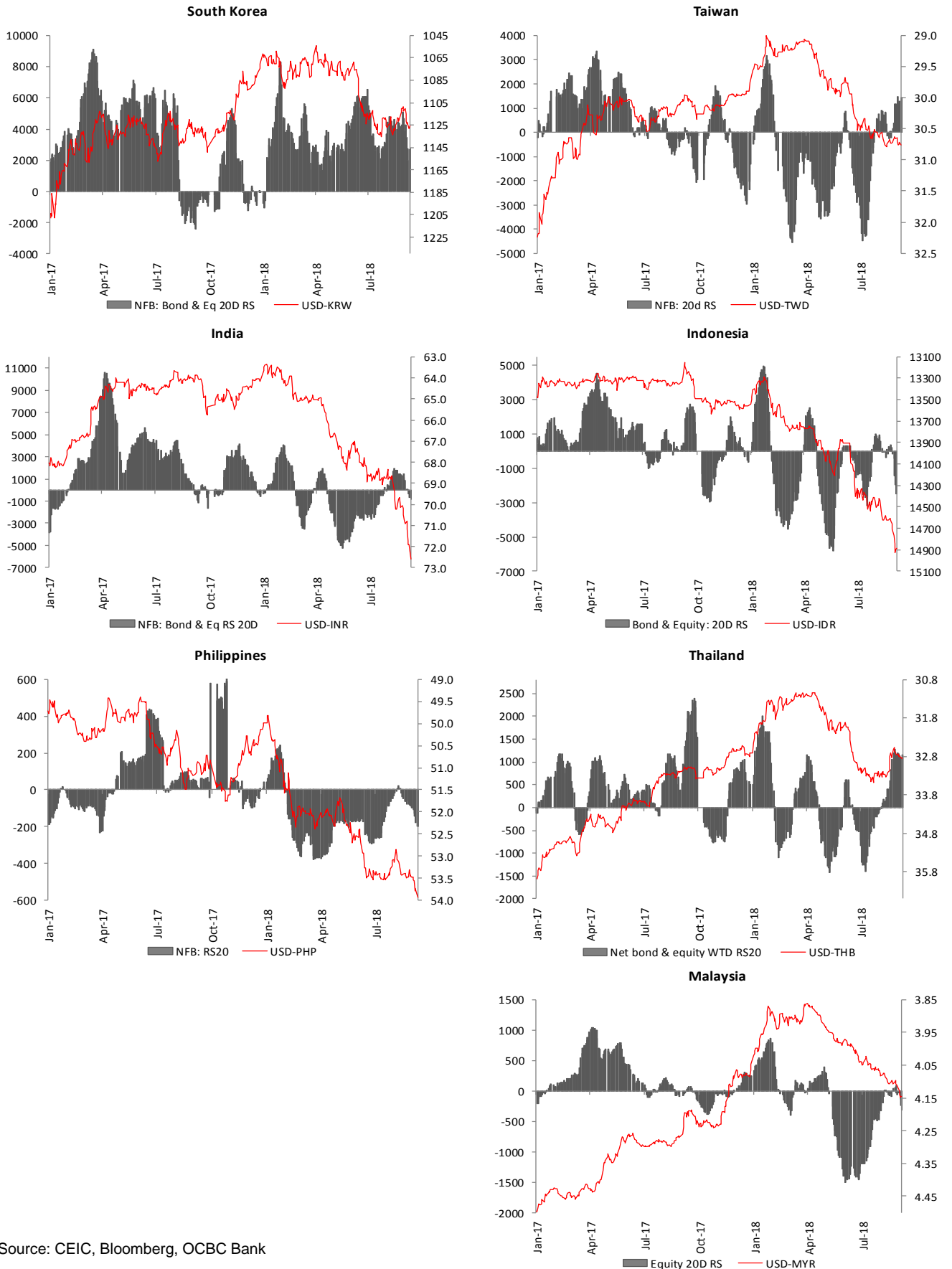
Source: OCBC Bank, Bloomberg

### 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. The FX vol curve has softened but this belies the riskies continuing to lean in favor of the USD. 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 North Asian trends in general; flow dynamics remain supportive despite EM concerns
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 new short term PHP bears in the NDF outright in the absence of fresh EM distress.

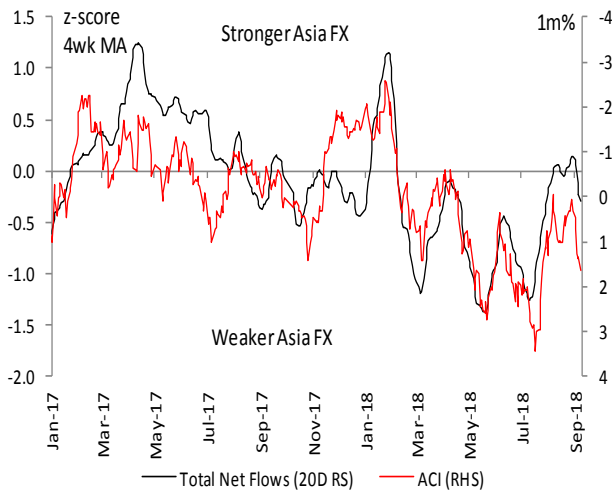
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



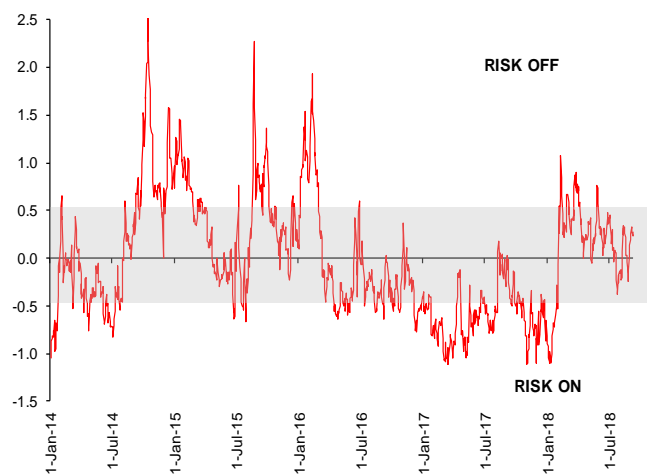
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1.000	-0.061	0.859	-0.897	-0.397	-0.774	-0.364	-0.785	0.332	0.826	0.651	-0.992
THB	0.945	0.008	0.842	-0.825	-0.484	-0.799	-0.321	-0.783	0.304	0.796	0.598	-0.946
CNY	0.859	0.126	1.000	-0.821	-0.490	-0.749	-0.282	-0.697	0.456	0.641	0.880	-0.870
CHF	0.823	-0.393	0.658	-0.839	-0.147	-0.663	-0.510	-0.792	-0.120	0.671	0.300	-0.815
KRW	0.736	0.307	0.781	-0.831	-0.765	-0.733	-0.200	-0.651	0.519	0.358	0.619	-0.753
TWD	0.706	0.300	0.692	-0.670	-0.758	-0.676	-0.020	-0.668	0.505	0.327	0.557	-0.682
CNH	0.651	0.313	0.880	-0.645	-0.425	-0.523	-0.006	-0.362	0.629	0.459	1.000	-0.670
SGD	0.558	0.588	0.651	-0.458	-0.689	-0.490	0.147	-0.297	0.778	0.343	0.788	-0.564
CAD	0.476	0.330	0.455	-0.420	-0.678	-0.500	-0.029	-0.344	0.723	0.319	0.509	-0.463
AUD	0.009	-0.821	-0.183	-0.111	0.571	-0.021	-0.498	-0.248	-0.646	0.178	-0.469	0.001
USGG10	-0.061	1.000	0.126	0.190	-0.509	0.099	0.577	0.277	0.527	-0.277	0.313	0.054
PHP	-0.256	0.688	0.008	0.237	-0.723	0.068	0.320	0.167	0.431	-0.552	0.152	0.233
MYR	-0.323	0.636	-0.290	0.352	-0.374	0.078	0.396	0.388	0.462	-0.272	0.013	0.315
INR	-0.334	0.765	-0.053	0.396	-0.577	0.144	0.425	0.328	0.515	-0.493	0.185	0.326
JPY	-0.364	0.577	-0.282	0.543	0.097	0.576	1.000	0.634	-0.068	-0.525	-0.006	0.427
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	-0.382	-0.742	-0.520	0.320	0.753	0.348	-0.231	0.104	-0.750	-0.183	-0.645	0.393
GBP	-0.839	0.435	-0.575	0.804	0.078	0.708	0.452	0.771	-0.064	-0.808	-0.288	0.807
EUR	-0.992	0.054	-0.870	0.912	0.415	0.795	0.427	0.804	-0.358	-0.830	-0.670	1.000

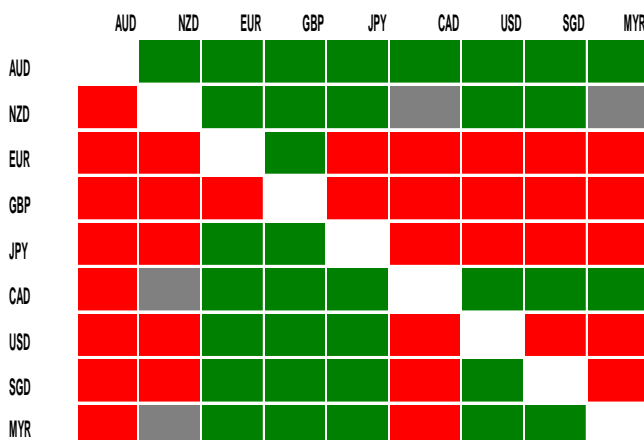
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1429	1.1500	1.1591	1.1600	1.1611
GBP-USD	1.2997	1.3000	1.3011	1.3081	1.3100
AUD-USD	0.7085	0.7100	0.7101	0.7200	0.7330
NZD-USD	0.6500	0.6501	0.6515	0.6600	0.6699
USD-CAD	1.2904	1.3000	1.3072	1.3087	1.3100
USD-JPY	111.00	111.28	111.48	111.87	111.89
USD-SGD	1.3677	1.3700	1.3767	1.3800	1.3814
EUR-SGD	1.5879	1.5900	1.5958	1.5997	1.6000
JPY-SGD	1.2289	1.2300	1.2349	1.2400	1.2463
GBP-SGD	1.7776	1.7900	1.7913	1.7982	1.8000
AUD-SGD	0.9753	0.9761	0.9775	0.9800	1.0025
Gold	1161.40	1175.60	1193.90	1200.00	1213.51
Silver	13.91	14.00	14.04	14.10	15.06
Crude	68.99	69.80	69.89	69.90	71.08

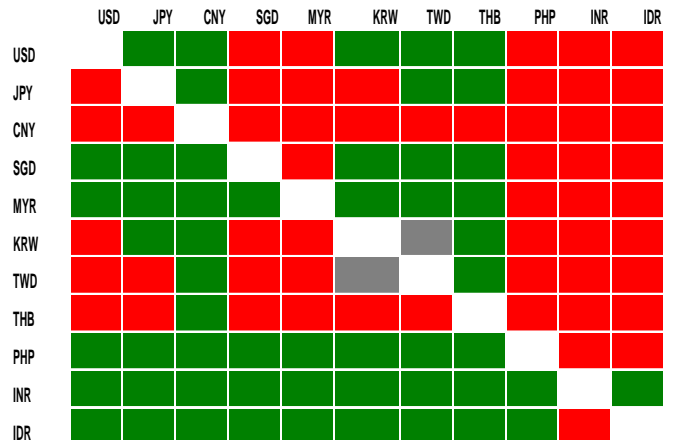
Source: OCBC Bank

**G10 FX Heat Map**



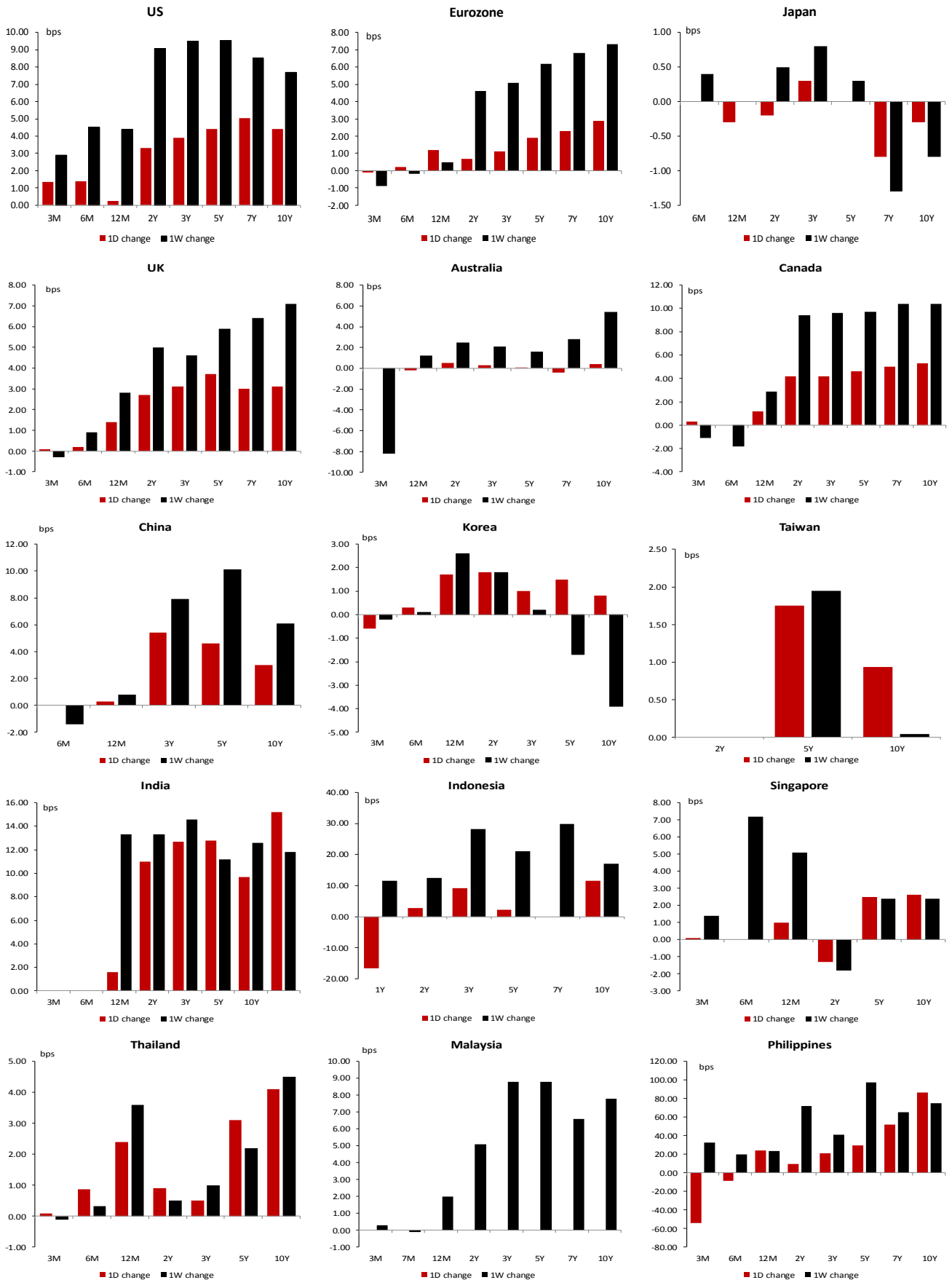
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



**FX Trade Recommendations**

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale	
<b>TACTICAL</b>							
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	
4	11-Sep-18	B	GBP-USD	1.3056	1.3325 1.2920	Positioning ahead of BOE MPC and positivity from Brexit news flow	
<b>STRUCTURAL</b>							
-	-	-	-	-	-	-	
<b>RECENTLY CLOSED TRADE IDEAS</b>							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
-	-	-	-	-	-	-	-
* realized							

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