

Friday, September 14, 2018

FX Themes/Strategy/Trading Ideas

- Despite supported US yields, softer than expected data prints dragged the dollar lower across G10 space on Thursday. The JPY underperformed across the board with risk appetite on an even keel (no flare ups on the US-Sino trade tensions front).
- Weaker than expected August CPI data, following Wednesday's soft PPI prints, took more shine out of the dollar. Fed expectations took a hit, but remained largely intact. Despite this, we think it is difficult to argue against US economic outperformance relative to the ROW. ROW fundamentals, as indicated by our Macro Surprises Indices, remain soft. Therefore, the structural underpinnings for the dollar remain intact.
- Overall risk sentiments also took a further positive turn, with the Turkish central bank delivering a larger than expected 625 bps rate hike, instilling some (however fleeting) confidence into the TRY. Our **FX Sentiment Index (FXSI)** retreated back to the middle of the Risk-Neutral zone.
- **The confluence of developments effectively provided the excuse for dollar longs to take cover. Technically, the DXY's test of its 100-day MA may present a cause for pause for USD resilience, especially if odds of a December rate hike continue to waver. Also expect JPY-crosses to lift if risk sentiments continue to improve. Looking forward, global trade tensions however remain a wild card into next week.**
- Meanwhile, the EUR also maintained implicit support after the ECB's policy statement, with the central bank maintaining its anticipated policy trajectory of tapered asset purchases.
- On other fronts, the BOE MPC remained static as widely expected with the central bank highlighting heightened Brexit risks but revising higher its 3Q GDP forecasts. GBP tracked the EUR higher amid broad USD vulnerability. Background risks for the GBP may continue to simmer, with the BOE's Carney briefing the Cabinet on the perils of a "no-deal" Brexit.
- Our 10 Sep 18 idea to be short **USD-JPY** (spot ref: 111.05) was stopped out on Thursday at 111.95 as global risk appetite levels attempted to recover.

Treasury Research &
Strategy

Emmanuel Ng

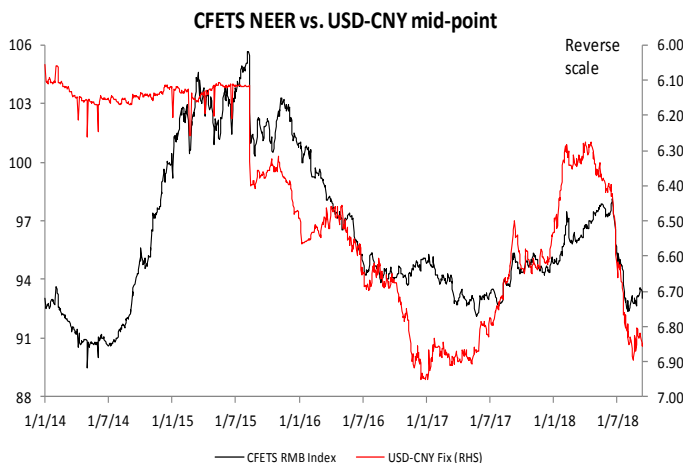
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu

+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- Despite the dollar-negative developments overnight, note sustained weakness in the BRL and ARS. We are not out of the woods in terms of EM concerns.
- **Intra-day, Asia may be greeted with relatively calm conditions with the RMB complex providing an anchor. Despite some capitulation in negativity in recent days, we caution that investor caution (NDF curves and vol surface considerations) remains apparent beyond the short term.**
- As mentioned previously, in the current environment of market caution, investors would invariably shift higher up the credit rating scale in their search for vulnerability. **With negativity already priced into India and Indonesia, we reiterate that the Philippines may continue to figure prominently on investors' radar screens**, given the inflation threat (which may force the BSP's hand), rapidly deflating real rates, softening growth, a current account deficit (albeit minor), and flailing foreign reserve and import-cover metrics.
- In this context, we continue to be concerned about the constant deterioration of in the portfolio flow environment in the Philippines. Outflow momentum continues to build for India and Indonesia, as Malaysia joins the ranks of economies facing accelerated outflows. In the North, we also look cautiously at the situation in South Korea, where attempts to consolidate may give way to further moderation in inflow momentum. On the positive side, inflow momentum in Taiwan and Thailand remain well-supported.
- **SGD NEER:** The SGD NEER firmed again this morning, coming in at around +1.12% above its implied parity (1.38545). NEER-implied USD-SGD thresholds remained largely static. Continue to eye the +0.90% (1.3731) and +1.20% (1.3690) thresholds to limit the pair intraday.
- **CFETS RMB Index:** The USD-CNY mid-point came in lower, as largely expected, at 6.8362 from 6.8488 on Thursday. The CFETS RMB Index inched lower to 93.05 from 93.07. Note that the RMB Index continues to bleed lower this week, even while the USD-CNY stays contained in the 6.80-6.90 range.



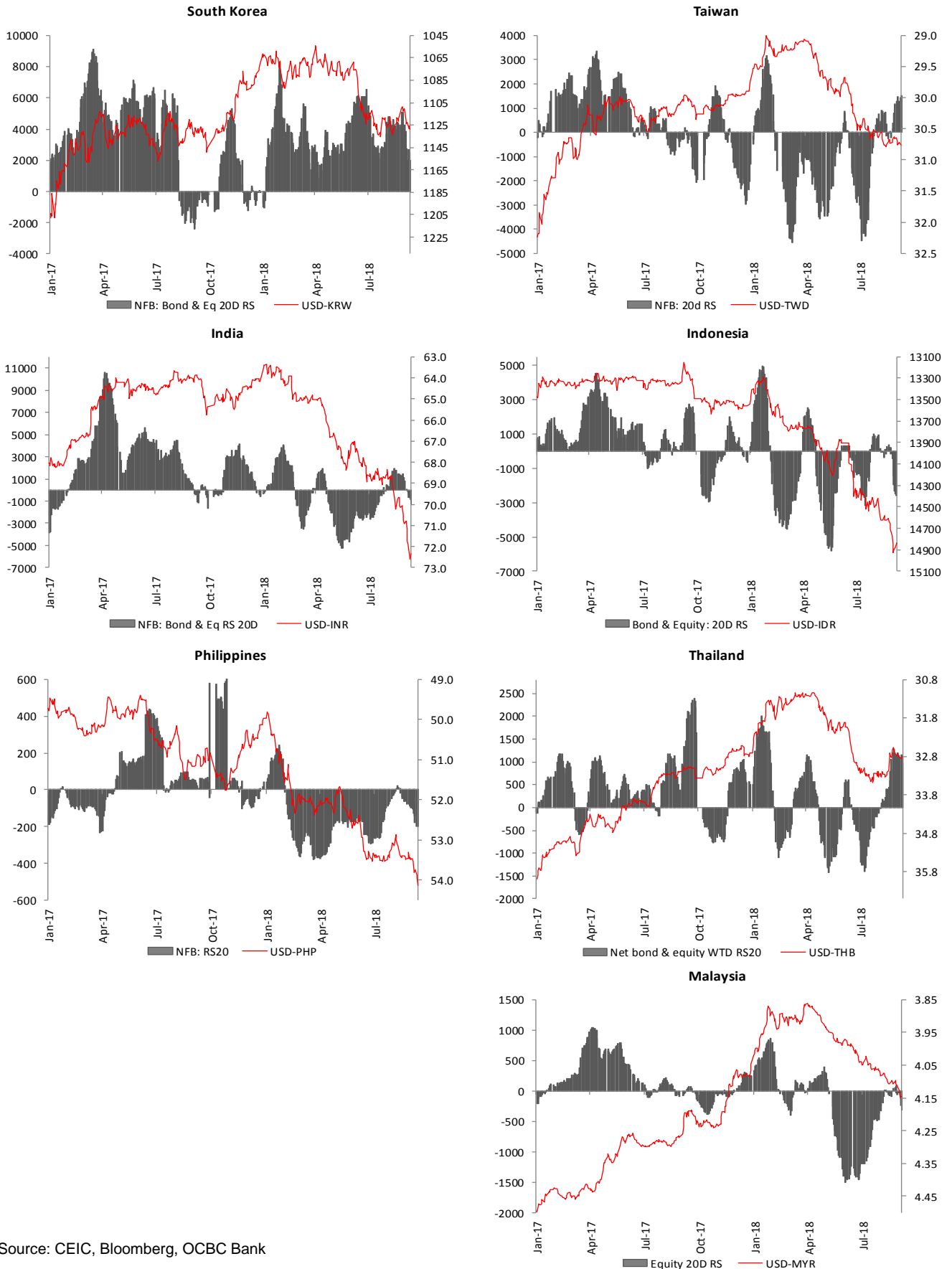
Source: OCBC Bank, Bloomberg

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 | ↔ | Weaker than expected unemployment print may douse rate hike expectations; BOK board member warns against rate hikes on tepid inflation. Expect back-end yields for KTBs (and NDIRS) to continue to lead the way lower. |
| 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 but this may be tempered by potential for a rate hike (despite the softer than expected Aug CPI) and administrative measures from the authorities. 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. |
| 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. Despite still strong bond inflows, expect implicit upside pressure on govie and NDIRS curves to continue to materialize. |
| 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. |

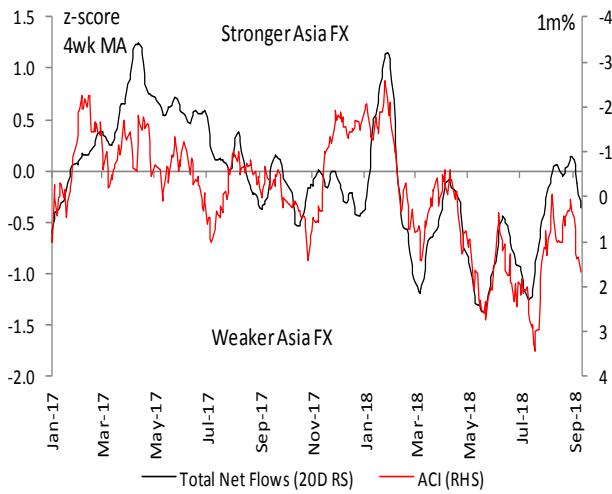
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



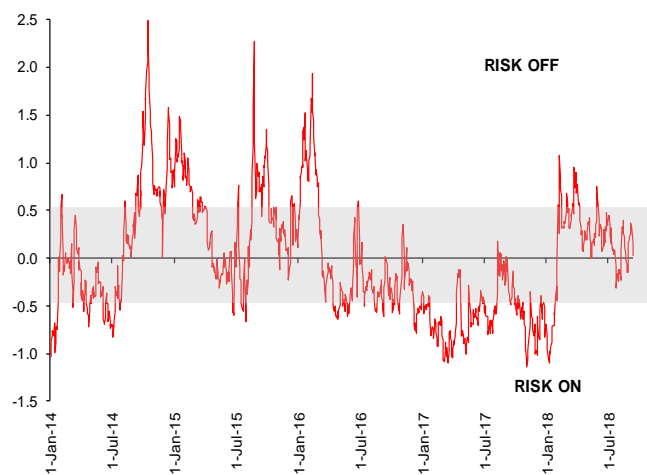
Source: CEIC, Bloomberg, OCBC Bank

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 | ITRXX | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | -0.350 | 0.795 | -0.890 | -0.249 | -0.847 | -0.535 | -0.813 | 0.293 | 0.817 | 0.563 | -0.985 |
| THB | 0.925 | -0.120 | 0.819 | -0.812 | -0.386 | -0.813 | -0.425 | -0.780 | 0.342 | 0.764 | 0.559 | -0.937 |
| CHF | 0.818 | -0.586 | 0.565 | -0.825 | -0.005 | -0.688 | -0.618 | -0.778 | -0.199 | 0.649 | 0.196 | -0.803 |
| CNY | 0.795 | 0.073 | 1.000 | -0.767 | -0.481 | -0.727 | -0.257 | -0.641 | 0.397 | 0.523 | 0.854 | -0.834 |
| CAD | 0.576 | 0.095 | 0.436 | -0.453 | -0.483 | -0.524 | -0.146 | -0.399 | 0.720 | 0.372 | 0.527 | -0.552 |
| CNH | 0.563 | 0.143 | 0.854 | -0.554 | -0.382 | -0.534 | -0.047 | -0.393 | 0.598 | 0.342 | 1.000 | -0.591 |
| TWD | 0.538 | 0.376 | 0.641 | -0.540 | -0.801 | -0.534 | 0.089 | -0.503 | 0.427 | 0.109 | 0.467 | -0.558 |
| SGD | 0.499 | 0.412 | 0.617 | -0.383 | -0.639 | -0.458 | 0.066 | -0.307 | 0.797 | 0.242 | 0.758 | -0.514 |
| KRW | 0.492 | 0.336 | 0.692 | -0.623 | -0.903 | -0.575 | -0.108 | -0.538 | 0.368 | -0.004 | 0.412 | -0.572 |
| AUD | 0.077 | -0.767 | -0.204 | -0.169 | 0.605 | -0.094 | -0.481 | -0.243 | -0.651 | 0.262 | -0.459 | -0.050 |
| INR | -0.212 | 0.869 | 0.192 | 0.273 | -0.658 | 0.184 | 0.431 | 0.335 | 0.683 | -0.449 | 0.430 | 0.164 |
| NZD | -0.216 | -0.701 | -0.467 | 0.156 | 0.787 | 0.231 | -0.286 | 0.073 | -0.684 | 0.022 | -0.561 | 0.257 |
| IDR | -0.319 | 0.679 | -0.203 | 0.390 | -0.429 | 0.249 | 0.450 | 0.397 | 0.457 | -0.334 | 0.023 | 0.310 |
| MYR | -0.342 | 0.774 | -0.148 | 0.328 | -0.575 | 0.216 | 0.494 | 0.392 | 0.486 | -0.347 | 0.072 | 0.300 |
| USGG10 | -0.350 | 1.000 | 0.073 | 0.380 | -0.632 | 0.235 | 0.679 | 0.331 | 0.368 | -0.509 | 0.143 | 0.300 |
| PHP | -0.357 | 0.832 | 0.073 | 0.272 | -0.782 | 0.247 | 0.457 | 0.299 | 0.277 | -0.617 | 0.114 | 0.270 |
| JPY | -0.535 | 0.679 | -0.257 | 0.629 | -0.072 | 0.554 | 1.000 | 0.572 | -0.094 | -0.617 | -0.047 | 0.575 |
| GBP | -0.847 | 0.670 | -0.433 | 0.782 | -0.156 | 0.721 | 0.624 | 0.716 | -0.050 | -0.814 | -0.212 | 0.790 |
| EUR | -0.985 | 0.300 | -0.834 | 0.914 | 0.323 | 0.860 | 0.575 | 0.831 | -0.328 | -0.804 | -0.591 | 1.000 |

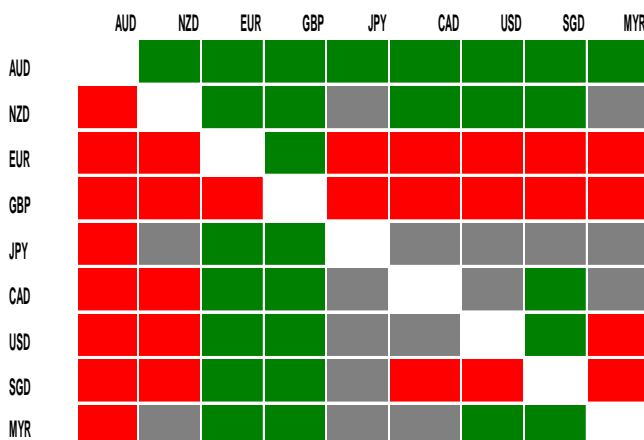
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1600 | 1.1610 | 1.1696 | 1.1700 | 1.1733 |
| GBP-USD | 1.2993 | 1.3100 | 1.3120 | 1.3124 | 1.3126 |
| AUD-USD | 0.7085 | 0.7100 | 0.7194 | 0.7200 | 0.7323 |
| NZD-USD | 0.6500 | 0.6501 | 0.6587 | 0.6600 | 0.6691 |
| USD-CAD | 1.2888 | 1.2900 | 1.2991 | 1.3000 | 1.3081 |
| USD-JPY | 111.00 | 111.33 | 111.89 | 112.00 | 112.20 |
| USD-SGD | 1.3611 | 1.3679 | 1.3697 | 1.3700 | 1.3804 |
| EUR-SGD | 1.5998 | 1.6000 | 1.6019 | 1.6031 | 1.6075 |
| JPY-SGD | 1.2207 | 1.2209 | 1.2242 | 1.2286 | 1.2300 |
| GBP-SGD | 1.7772 | 1.7900 | 1.7970 | 1.8000 | 1.8005 |
| AUD-SGD | 0.9761 | 0.9800 | 0.9853 | 0.9900 | 1.0017 |
| Gold | 1182.04 | 1200.00 | 1205.00 | 1212.42 | 1213.64 |
| Silver | 13.91 | 14.10 | 14.11 | 14.20 | 15.02 |
| Crude | 66.15 | 68.70 | 68.76 | 68.80 | 68.81 |

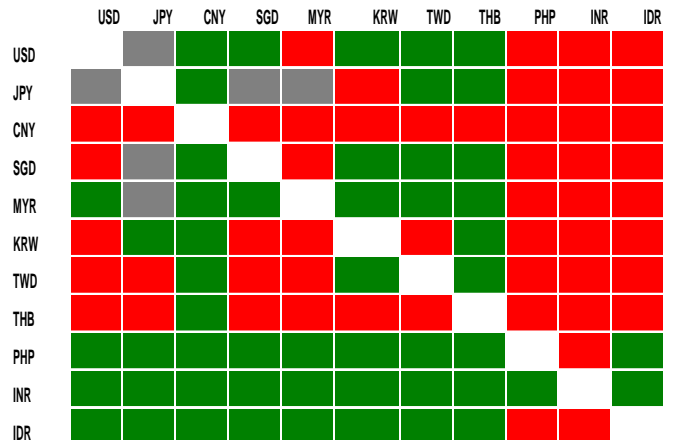
Source: OCBC Bank

G10 FX Heat Map



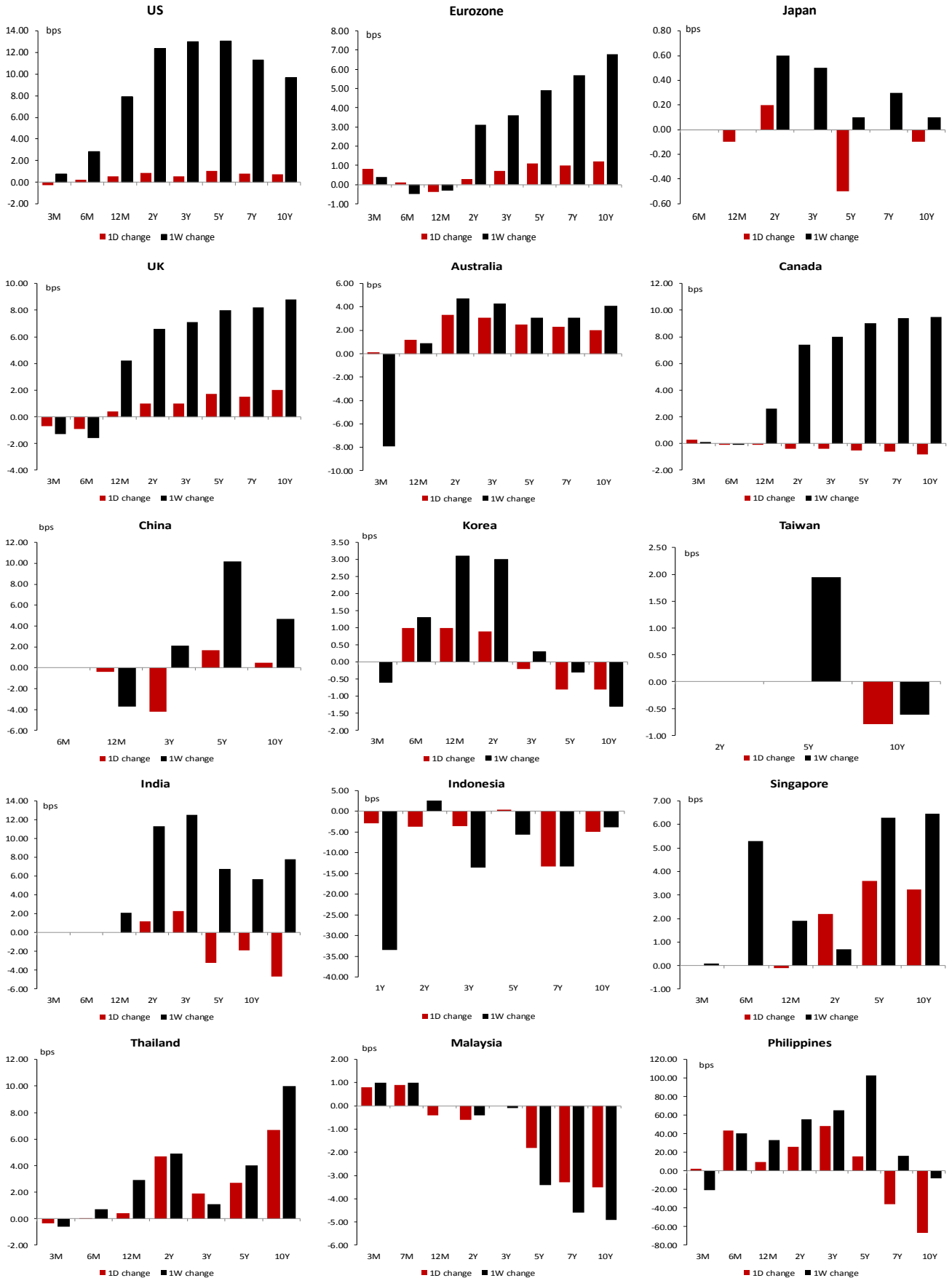
Source: OCBC Bank

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 | 11-Sep-18 | B | GBP-USD | 1.3056 1.3325 1.2920 | Positioning ahead of BOE MPC and positivity from Brexit news flow | | | |
| STRUCTURAL | | | | | | | | |
| - | - | - | - | - | - | | | |
| RECENTLY CLOSED TRADE IDEAS | | | | | | | | |
| Inception | Close | B/S | Currency | Spot | Close | Rationale | P/L (%)* | |
| 1 | 07-Sep-18 | 12-Sep-18 | B | USD-CAD | 1.3137 | 1.3020 | USD resilience, NAFTA uncertainty | |
| 2 | 10-Sep-18 | | S | USD-JPY | 111.05 | 111.95 | Risk of further global market uncertainty | |
| * realized | | | | | | | | |

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
