

Monday, September 17, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar powered higher against the majors on Friday on the back of supportive data points (upwardly revised retail sales for July and better than expected Jul/Aug industrial production numbers) and a firmer UST curve (10y testing the 3.00% handle for the fifth time this year). Note that yield differentials against the rest of the G10 markets are re-opening in favour of the dollar.
- Talk of US tariffs on China resurfacing on Friday (Trump reportedly ordered an additional USD200bn worth of tariffs to be unveiled as early as Monday) should keep investors jittery. Watch for any rejection of trade talks by Beijing if new tariffs do indeed materialize.
- Apart from trade headlines this week, also look to the EU Summit on 19-20 September for emerging headlines on the Brexit front. **In the interim, the dollar should be viewed from a position of strength on the back of structural macroeconomic and yield differential support (note also supportive rhetoric from the Fed's Evans) at this juncture. On this front, expect relative vulnerability to continue to rest with the cyclicals.**
- On the **CFTC** front, large non-commercial position accounts pared slightly their net implied long dollar bias in aggregate in the latest week but asset manager accounts reduced their implied short dollar bias. Meanwhile, leveraged accounts also cut their implied long dollar bias in the latest week. Note however that leveraged positioning in favor of the dollar remains significant.
- The central bank calendar is filled with mainly European appearances, headlined by the ECB's Draghi (Tue, Wed) and Praet (1015 GMT, and Thu), and the BOE's Haldane (Wed). The BOJ policy meeting also scheduled (Thu).
- The data calendar looks comparatively light this week, with highlight on CPI prints in Eurozone (0900 GMT), UK (Tue) and Japan (Thu), before the preliminary read of global September PMIs on Friday. US data calendar populated by mostly second-string prints.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

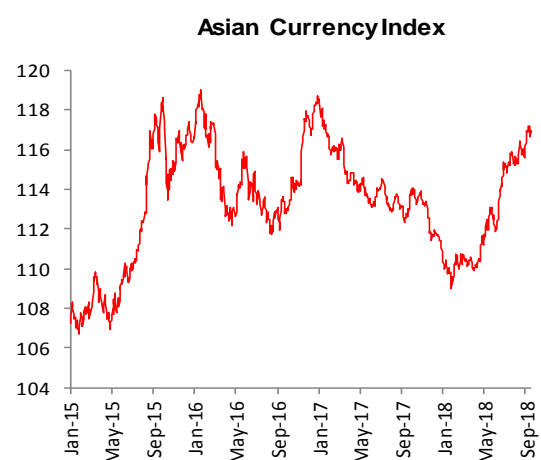
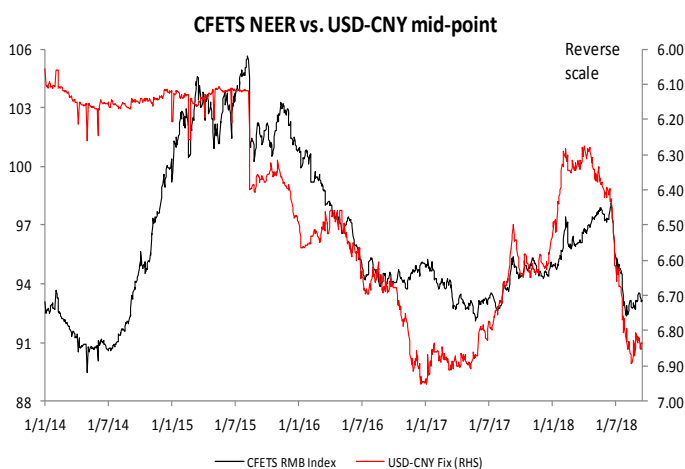
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- Overall risk sentiments are being pulled on both ends. Renewed Trump trade threats, on one hand, puts a dampener on risk appetite, but an unexpected rate hike from the Russian central bank on Friday (following the Turkish central bank on Thursday) provided some lift to EM FX. Our **FX Sentiment Index (FXSI)** inched lower again within the Risk-Neutral zone.
- **USD-CNH lifted in sympathy with the broad dollar on Friday and despite the positive turnout for US equities (and largely steady China data releases earlier in the global day), expect sentiment in Asia to remain a touch nervous at the onset of the week.**
- In terms of **Asian net portfolio flows**, we note the continuation of trend from the last week, with Taiwan and Thailand still positive in terms on inflow momentum on a rolling 20-day basis. Inflow momentum for South Korea continues to moderate, while the other South Asians are saw a worsening of outflow momentum on a rolling 20-day basis. On a more structural, rolling 60-day basis, inflow momentum for South Korea continues to hold up, while the rest of Asia are nursing some serious outflows. On the **EPFR** front, implied net outflows from Asia (ex-Japan, China) ballooned in the latest week while net implied bond outflows more than doubled in the same period.
- **SGD NEER:** The SGD NEER is softer to start this week, coming in at around +0.97% above its implied parity (1.3877). NEER-implied USD-SGD thresholds are broadly firmer on the dollar rally on Friday. Watch the +0.80% (1.3767) and +1.10% (1.3726) thresholds as an intra-day guide. Note that the SGD NEER deviation from parity appears to be drifting in line with perceived external risk sentiments. Any spike in negativity in trade headlines and the EM space causing it to ease lower, and vice versa. In the interim, expect the USD-SGD to stay within range.
- **CFETS RMB Index:** The USD-CNY mid-point came in higher, within expectations, at 6.8509 from 6.8362 on Friday. The CFETS RMB Index firmed to 93.12 from 93.05 previously.



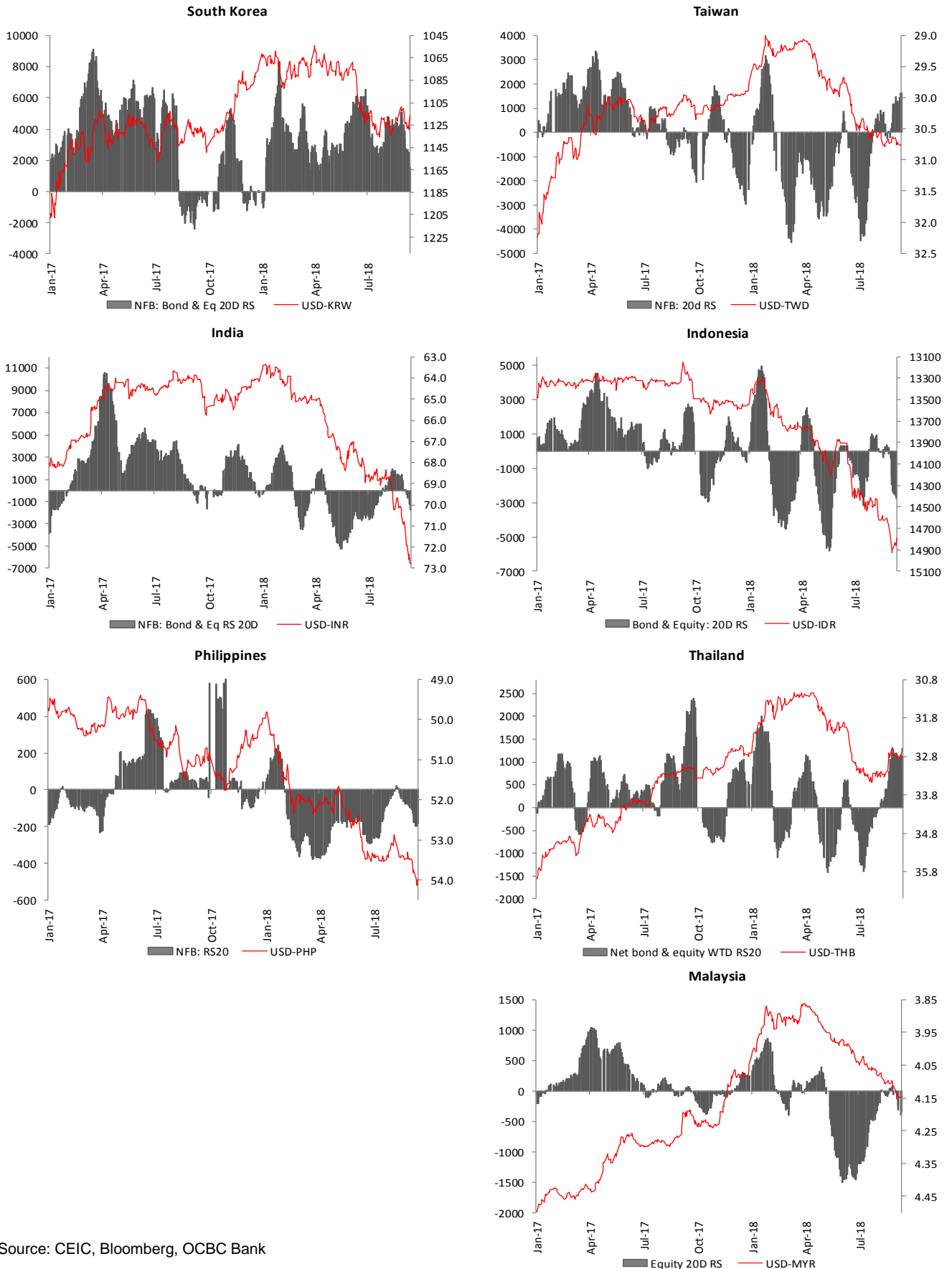
Source: OCBC Bank, Bloomberg

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. Net portfolio inflows continue to decay. Watch Moon-Kim summit on Tuesday.
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. FX measures announced on Friday did not surprise prior expectations; net bond/equity outflows continue to deepen.
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 and pushing interest out towards the back-end in the forward/forwards if investors remain bearish on the IDR. Net bond outflows continue apace. 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. BOT expected to be static this week at 1.50%.
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.

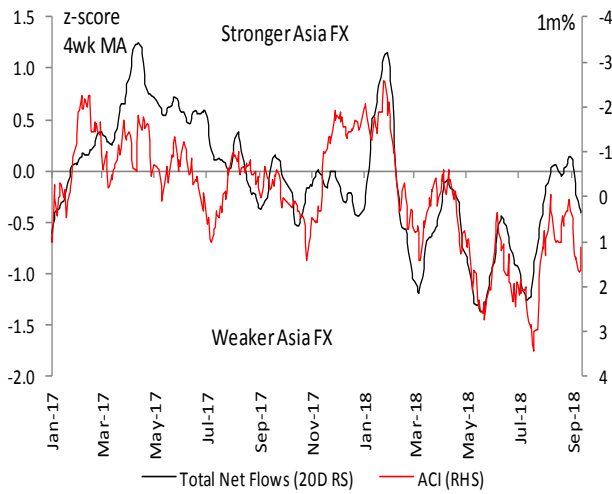
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



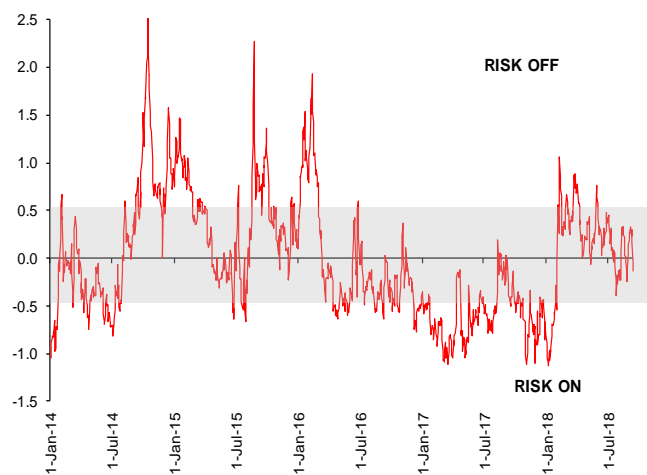
Source: CEIC, Bloomberg, OCBC Bank

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	-0.343	0.453	-0.757	-0.112	-0.599	-0.486	-0.548	0.152	0.580	0.317	-0.950
THB	0.744	-0.181	0.406	-0.590	-0.345	-0.401	-0.461	-0.384	0.374	0.463	0.302	-0.745
CHF	0.603	-0.667	0.099	-0.717	0.237	-0.334	-0.605	-0.552	-0.444	0.343	-0.250	-0.543
CAD	0.582	0.167	0.321	-0.349	-0.445	-0.456	-0.057	-0.262	0.701	0.247	0.456	-0.550
CNY	0.453	0.365	1.000	-0.338	-0.556	-0.402	0.064	-0.169	0.133	-0.139	0.848	-0.564
SGD	0.362	0.557	0.554	-0.109	-0.650	-0.314	0.282	-0.045	0.693	-0.070	0.741	-0.411
KRW	0.320	0.363	0.559	-0.522	-0.903	-0.425	-0.011	-0.391	0.397	-0.316	0.384	-0.456
CNH	0.317	0.380	0.848	-0.194	-0.434	-0.313	0.277	-0.029	0.377	-0.118	1.000	-0.398
TWD	0.144	0.477	0.384	-0.221	-0.843	-0.197	0.260	-0.156	0.329	-0.485	0.240	-0.188
AUD	-0.023	-0.780	-0.461	-0.217	0.666	0.004	-0.527	-0.251	-0.606	0.320	-0.679	0.099
IDR	-0.078	0.652	0.149	0.247	-0.566	-0.013	0.416	0.241	0.604	-0.170	0.370	0.051
MYR	-0.102	0.753	0.228	0.219	-0.746	-0.047	0.430	0.255	0.566	-0.244	0.399	0.009
INR	-0.106	0.845	0.381	0.236	-0.734	0.046	0.454	0.273	0.620	-0.438	0.515	0.028
NZD	-0.175	-0.733	-0.548	-0.020	0.800	0.182	-0.395	-0.073	-0.592	0.244	-0.646	0.271
PHP	-0.286	0.847	0.495	0.189	-0.874	-0.009	0.479	0.147	0.244	-0.681	0.365	0.100
USGG10	-0.343	1.000	0.365	0.489	-0.662	0.099	0.692	0.334	0.271	-0.656	0.380	0.241
JPY	-0.486	0.692	0.064	0.696	-0.185	0.396	1.000	0.543	-0.162	-0.663	0.277	0.529
GBP	-0.661	0.766	0.243	0.612	-0.439	0.341	0.622	0.444	0.087	-0.675	0.333	0.498
EUR	-0.950	0.241	-0.564	0.795	0.261	0.636	0.529	0.576	-0.201	-0.518	-0.398	1.000

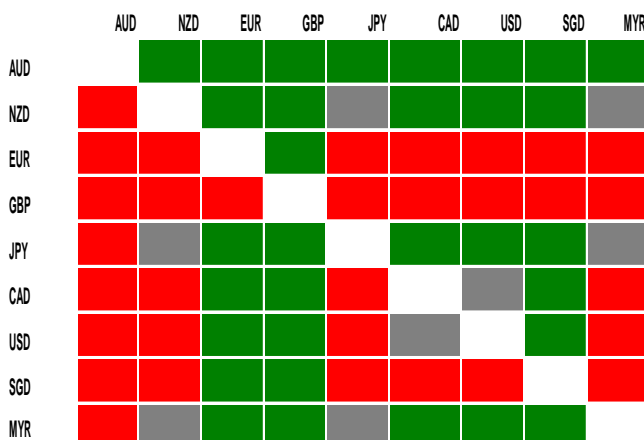
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1607	1.1633	1.1700	1.1713
GBP-USD	1.2988	1.3000	1.3080	1.3100	1.3126
AUD-USD	0.7085	0.7100	0.7155	0.7200	0.7316
NZD-USD	0.6500	0.6501	0.6552	0.6600	0.6685
USD-CAD	1.2892	1.3000	1.3035	1.3080	1.3100
USD-JPY	111.00	111.36	111.99	112.00	112.15
USD-SGD	1.3684	1.3700	1.3744	1.3800	1.3811
EUR-SGD	1.5882	1.5900	1.5988	1.5999	1.6000
JPY-SGD	1.2209	1.2211	1.2273	1.2287	1.2300
GBP-SGD	1.7772	1.7900	1.7977	1.8000	1.8005
AUD-SGD	0.9761	0.9800	0.9834	0.9900	1.0010
Gold	1161.40	1186.09	1195.00	1200.00	1210.56
Silver	13.90	13.91	13.99	14.00	15.00
Crude	68.71	68.90	68.97	69.00	70.67

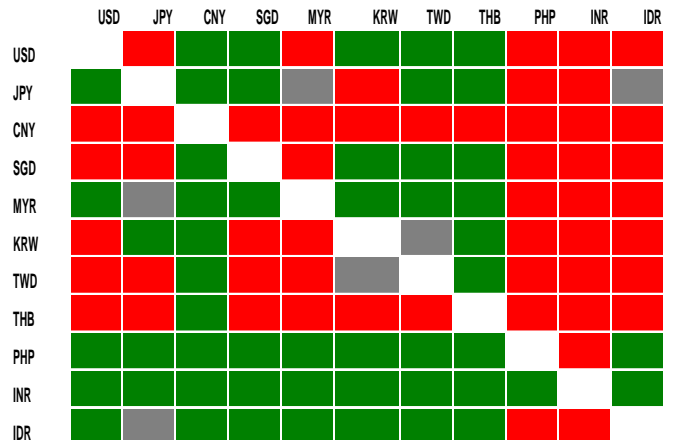
Source: OCBC Bank

G10 FX Heat Map



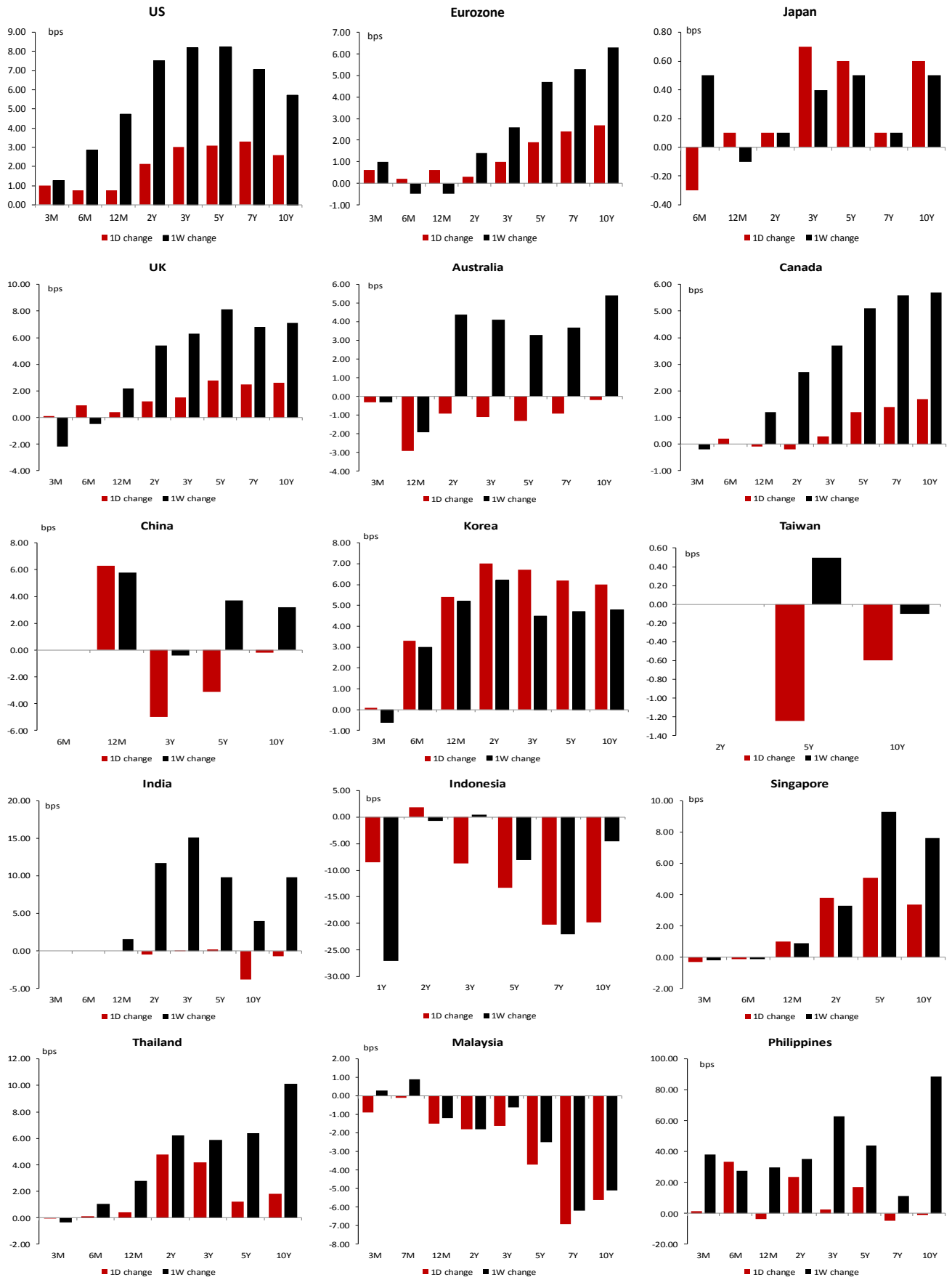
Source: OCBC Bank

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	13-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).
